Budgetary Structure and Classification of Government Accounts

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PREFACE

A comprehensive fiscal policy is impossible without a proper system of financial planning and reporting at all levels of government. Moreover, an adequate set of budgetary data and financial accounts is a prerequisite for social accounting.

The presentation of financial programmes by Member Governments, therefore, assumes particular significance. If the budget is to serve as an instrument for the formulation of employment targets and development programmes and for the measurement of the central government's contribution to the current level of a country's income and employment, it must have an appropriate structural framework.[1]

A number of Economic and Social Council resolutions have urged greater attention to the mobilization of domestic savings for development purposes and a systematic plan for financing economic development.[2] More recently, the Statistical Commission also indicated its interest in a study of the problem of international comparability of statistics published by governments on revenue, expenditures and the public debt.[3]

The main reason for presenting this study to the third session of the Fiscal Commission is, however, that no regional or any other kind of international co-ordination of government programmes can be effectively executed without some common basis of budgeting and financial reporting. The disparity of methods of presentation, the diversity of fiscal calendar dates of individual countries, are matters of concern to an international organization which strives to improve co-operation in the economic and social fields. This study deals with the basic methods of presentation. It is hoped that questions of policy such as fiscal timing, planning, execution and control will be the object of further studies.

The study was prepared in the Fiscal Division of the Department of Economic Affairs.

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[1] E/1840.
[2] A/1541.
[3] E/1696/Rev.1/Sections 106 and 107.

INTRODUCTION

The structure and classification of central government budget receipts and expenditures is an important problem for many countries. Effective government fiscal policy for an economy as a whole can be formulated only on the basis of accurate information and current reporting of activities in the government sector. The budget must serve, in many countries, as an instrument for the formulation of full employment targets and development programmes. As economic development expands, there is an increase in government activities dealing with production, trade and financing. For both under-developed and developed countries the presentation of central government budget data should be linked with the schematic form of the national income or social accounts. This serves the purposes of internal or national comparability and also of international comparability which has assumed increased importance in connexion with recent international or regional programmes of co-ordinating fiscal policies of governments.

Problems of structure and classification of the central government accounts are bound up with budget procedure (formulating and adopting the budget) and budgetary management (programme planning and execution and post-budgetary control). In practice it is not possible to divorce budget classification and structure from budget procedure and management. However, for present purposes, an attempt has been made to effect this separation, so far as possible, and to deal with questions of structure and classification alone. This treatment may be justified on the ground that current interest in budgetary reform and economic development has centred attention on questions of budget classification and structure. Reliable and intelligible data on central government activities are a prerequisite to the effective formulation of public policy.

The public sector of the economy includes the central government, its undertakings and funds, and the provincial and local governments, with their undertakings and funds. This paper will be devoted principally to the problems of classification and structure of the central government activities. However, the budget principles and techniques which are considered here are also relevant, with some exceptions, to the budget structures and classifications of provincial and local authorities. The application of structural and classification techniques to provincial and local authorities will be considered briefly at the end of this paper (see section V).

A central government budget has two purposes: one is to serve as the major tool of executive management and legislative control and the other is to reveal information significant to economic analysis and at the same

time provide the framework for a policy of stability and development. The structure of the budget is determined not only by the objectives of the budgeting process but also by the institutional patterns and requirements of the national governments. Consequently, it is impossible to devise a uniformly valid standard of classification for the components of estimates of expenditures and receipts which together constitute the ensemble of the budget structure. However, there are certain fundamental principles which are common to rather large categories of national budgets and which, allowing for variations, can be suggested as optimal in providing the basic fiscal data required for economic analysis. Specific classification systems reflect the general industrial, social or economic development of a country and also reflect the refinement in the government's economic machinery. Thus, in some cases, where data respecting public and private payments are available, the government budget may be analysed in connexion with the nation's economic budget.

The nature of the economy determines in many cases the effects of certain categories of receipts. Thus, in an export economy, characteristic of many under-developed countries, tax or royalty payments on production from natural resources which are owned by companies located outside the country may be made from funds outside the country, with no corresponding reduction in disposable income within the country. The taxes on the production and on the sale of commodities will reduce the domestic disposable income only when they are paid from funds available within the country. The structure of the budget and its interpretation should if possible be adapted to such special situations.

The separation of capital and current accounts has often been used as an instrument for policy guidance to determine expenditures which could be met wholly or partly by loans and wholly or partly by taxes. The present analysis does not suggest any such policy and therefore does not attempt to be orthodox in arriving at water-tight separations. Nevertheless, an attempt is made to give general guidelines in the separation of current and capital accounts, not from the point of view of policy guidance but from the point of view of determining how large a part of government funds is used for investment purposes. It should also be possible to use the distinction between capital and current accounts to ascertain the changes in net public assets or liabilities. In order to achieve these results, more or less arbitrary classification procedures are inevitable and no universally applicable technique can be devised. Refinements here depend in part upon the possibility of inventory appraisal and the feasibility of establishing depreciation allowances either in a physical or in an accounting sense.

The need for rapid economic development has led to the creation of autonomous public corporations in many under-developed countries. Nationalization of industry or commerce has produced similar juridical entities. Such corporations are of the general category of public undertakings, known in budgetary procedure for a very long time but of increased importance

during recent decades. The enterprise activities of government, whether of a development or commercial nature, such as a trading activity, must be treated by different accounting methods than those applied to regular departments and agencies. Commercial accounting is a method better suited to the requirements of the public undertakings. In spite of the need for their separation from the general accounts, enterprise accounts must be presented in such a way as to permit the inclusion of the aggregate net results of all government operations so that a consolidated picture of the net cash contribution of the public sector to the national economy can at all times be estimated.

While proper separation of economically significant items is a prerequisite for economic analysis, it must never be regarded as a substitute for it. For example, it is important for a central government to be able to analyse the impact of government activities on levels of income, employment and prices. The measurements which are a prerequisite for this analysis will include "net inflationary or deflationary effect", "income effect" and "money supply effect". These conceptions differ, although each is useful for particular types of analysis. All of these measurements are designed to provide the materials for tracing the economic contribution of government activity.

But no one of these measurements will disclose all the information needed for analysing the impact of government activity. Accurate measurement of a deficit or surplus is important as a tool of economic analysis, but taken by itself, the amount of a deficit or surplus can at best be a rough indication of the effect of government activity. A deficit, for example, may or may not be equivalent to an increase in inflationary pressure within the economy. On the expenditure side, a government outlay for goods and services will have a differing impact than an equivalent monetary outlay for loans to enterprise. Interest payments on the public debt will have different repercussions on levels of economic activity than payments to pensioners. Neither are tax receipts of a homogeneous character for purposes of economic analysis. Income tax receipts will generally affect the volume of private savings more than an equivalent receipt from commodity taxation. Levies on employers to support social insurance payments will differ in their effects from levies on employees. Significant measurements of the change in character, direction and volume of government activity are essential for economic analysis; the measurements are only a first step in the appraisal of the total effects of government activity. Appropriate budgetary classification can greatly facilitate the task of securing these measurements.

The questions of classification and budget structure treated in this study do not fall into neat categories. For purposes of convenience in presentation they will be grouped as follows:

I. Comprehensiveness in budgeting;

II. Current and capital account;

III. Revenue classification;

IV. Other issues;

V. Classification in provincial and local budgets;

VI. The applicability of classification systems.

The appendix describes a system of central government accounts which would meet most of the requirements of economic analysis. These accounts are not intended as "models", but rather as illustrations of the classification problems discussed in the body of the study.

I. COMPREHENSIVENESS IN BUDGETING

The first requirement of modern budgeting is that the government accounts should be comprehensive in order to present a complete picture of the financial programme of the government. The accounts should present the total extent of the government's influence on the economy, not only in the form of its contributions to the national product or national income but also through such income-redistributing factors as subsidies, social security benefits and tax revenues. All government programmes should lie within the scope of the budgetary controls which have been established to implement the responsibilities of the executive and the legislature, although the methods of application of these controls vary according to the types of activity. The budget should reflect all receipts and expenditures of the central government, and thus, by definition, should embrace the whole of the public sector controlled by the central government. Very often, the public sector shades off into the private sector so that somewhat arbitrary, or conventional, dividing lines must be established.

A. Definition of Receipts and Expenditures

Receipts and expenditures resulting from government activities other than production, trading and finance, should be included in the general budget on a gross basis, i.e., without deduction of related expenditures or receipts, in order to indicate their scope as well as their net effect.

All special accounts, including earmarked revenues which have been established as part of the administration of government activities, should be shown as an integral part of the general budget. All inter-departmental transactions should be eliminated from budgetary receipts and expenditures in order to avoid over-stating their respective levels. Budgetary receipts should include taxes, profits from public undertakings, income from property and other revenue. However, the so-called "balancing" items of receipts and expenditures, such as proceeds from borrowing and redemption of debt, should be excluded. It would also be preferable to treat certain types of monetary operations, such as profits resulting from a currency devaluation or losses resulting from a currency appreciation, in the same manner as borrowings or debt redemption. Receipts of foreign grants should likewise be excluded. Transactions excluded from budgetary receipts and expenditure should, however, be included in any statement showing the government's consolidated cash position, indicating the method of financing the gap between total expenditure and receipts.

B. Transactions of the Public Undertakings

Public undertakings should generally be included in the budget on a net basis. The budget should reflect the operating deficits or surpluses of public undertakings engaged in trade, production and financing activities and it should show the capital operations of public undertakings.

The nature of the activities of public undertakings is essentially different from that of the administrative departments of the government and therefore requires different treatment. While the activities of the latter consist largely in the disbursements of funds over which the treasury maintains a system of strict controls at each step of their disbursement, the public undertakings in the course of their activities extend trade credits or receive them and are affected by revaluation of their inventories. To control their activities much more flexibility is required than is provided in the system of control designed to meet the needs of the administrative services of the government.

Thus, commercial accounting, with its classification of receivables and payables, would appear the most appropriate system for public undertakings, while the traditional method of recording cash receipts and cash expenditures is well suited for the administrative activities of the government. This means that the accounts for the public undertakings need to be kept on an accrual basis, while the cash basis could be maintained for the administrative departments. However, accounts may not be uniform for different types of undertakings; government lending activities may have accounting requirements which differ from enterprises engaged in the purchase and sale of commodities.

For administrative as well as for accounting purposes a logical pattern acquires segregation of production, trading and financing activities from other government activities. However, in practice there is often a great deal of intermingling which makes clear segregation difficult or impossible. Wherever such segregation is possible, public undertakings should be controlled through a system of annexed budgets which set forth gross receipts and expenditures. Annexed budgets can provide the flexibility required for commercial production and financing operations better than complete integration with the general budget. The annexed budgets may take the form of profit and loss accounts and balance sheets as used in commercial accounting, or statements of the sources and applications of funds (for a discussion of capital outlays of public undertakings, see II). The annexed budgets for public undertakings should be sufficiently uniform to permit aggregating; that is, the central government summary accounts should include a consolidated statement reflecting the activities of the public undertakings.

C. Social Security Payments and Receipts

Social security payments and receipts can be shown in the general budget in two different ways. They may be treated in a system of accounts reflecting the establishment of an independent social insurance system, based on ad-

ministrative principles different from those of the administrative departments of the government; or social security receipts and expenditures may be integrated completely into the general budget if no separate treatment of these transactions is considered warranted. In the first case, receipts from the contributaries of the system are especially earmarked for the purposes of the system, and considerations of an actuarial nature are sometimes an element of management of these funds. In general, the receipts, expenditures and obligations of the system would lie outside the scope of administrative and legislative budgetary review; appropriation from its funds would not be available directly for other governmental purposes.

If social insurance funds are excluded from the central government budget their operations should be presented in annexed accounts or schedules in such a form that gross and net transactions can be ascertained. Under this arrangement the central government budget will show any contributions from the treasury to the funds of the insurance accounts; correspondingly, these amounts will appear as receipts in the social insurance accounts. In a consolidated financial statement comprising the central government and social insurance accounts (and public undertakings) (see appendix) these inter-governmental transfers will cancel out. This could be treated as follows:

I. *Central Government. Current or Revenue Account*

Expenditure

A_1. Payments to social insurance account.

B_1. Interest on national debt held by social insurance account.

II. *Social Insurance. Current Account*

Expenditure	*Receipts*
C. Administrative expense.	E. Contributions:
	(1) Employees (direct taxes);
	(2) Employers (indirect taxes).
D. Payments to beneficiaries.	A_2. Transfer from central government.
	B_2. Interest on national debt holdings.

Consolidated financial statement (I plus II)

Expenditure	*Receipts*
C. Administrative expense.	E. Contributions:
D. Payments to beneficiaries.	(1) Employees (direct taxes);
	(2) Employers (indirect taxes).

A consolidation of this sort will reflect not only the net contribution from the general budget, i.e. the difference between total contributions and total payments, but also the net results of the insurance fund transactions.

The alternative treatment would bring social security transactions within the framework of the budget on a gross basis. This would require that social security taxes or contributions be listed as a budgetary receipt and social security outlays as a budgetary expenditure. No social insurance funds would be maintained outside the treasury. This treatment is most practical for those countries where social security expenditure is largely financed from general tax revenue and not from special taxes and other segregated receipts.

If the principles discussed above in A, B and C are observed in budgetary presentation, the basis is laid for a classification of receipts and expenditures which is meaningful for purposes of economic analysis. It should be emphasized that the refinements in classification necessary for the construction of economically significant outlays are not possible, for the government sector, unless there is a strict adherence to the principle of comprehensiveness.

II. CURRENT AND CAPITAL ACCOUNT

The distinction between current and capital account is now incorporated in the budgets of a number of central governments, particularly in the Scandinavian countries, and has also been suggested in some recent papers on questions of budgetary reform.[1] The advisability of establishing such a system of accounts, and, if established, the classification procedures which are to be followed in separating "current" and "capital" transactions, are among the most controversial and difficult questions in budgetary procedure, especially in view of the frequent abuses of so-called "capital budgets" in hiding deficits which otherwise would have become apparent.

The distinction between current and capital budgets or accounts does not have exactly the same meaning in all countries where it has been used. It may mean little more than a separation, on the expenditure side of the budget, of those outlays which result in an increase in the State's real assets. On the other hand, it may mean the establishment of a capital budget which shows, on the expenditure side, outlays for acquisition or creation of real assets as well as certain financial investments, and, on the receipts side, proceeds from the sale of assets, repayment of investments and borrowings. Finally, it may mean a system of current and capital accounts which are integrated by specific statements of the transfers from current to capital account (e.g. provisions for depreciation). The underlying concept of such a system of account is that, as in the case of private business undertakings, the budgetary surplus or deficit should correspond to changes in the State's net assets. If "budgetary deficit" is defined to be equal to a decrease in the State's net assets, current expenditures must be separated from capital outlays, since an increase in assets acquired or created offsets an increase in liabilities resulting from such expenditures. If budget surplus is equated with an increase in the government's net assets, and budget deficit is equated with a reduction in the government's net assets, it follows that deficits and surpluses are relevant only to the current account.

From this point of view the budgetary deficit or surplus would have little meaning if the government's accounts were kept in such a way that the construction of a plant or other productive facility would contribute to a budget deficit and the sale of such an asset would contribute to a budget surplus.

This concept of surplus or deficit is frequently linked to the theory that, because of their asset-creating character, borrowings for capital formation

[1] J. R. Hicks, *The Problem of Budgetary Reform*, Oxford, 1948, and F. S. Bray and R. Stone, *The Presentation of the Central Government Accounts*, Cambridge, 1948.

purposes are justified, while current expenditures ought to be covered by tax revenue. However, asset acquisition, taken by itself, is not an adequate justification for government borrowing, and a separation of current and capital accounts should not be undertaken for the purpose of rationalizing government debt creation. Rather, the separation of current and capital account transactions should be undertaken where it will facilitate proper management of government affairs and where it will contribute to an analysis of the economic significance of government activities. Such a classification should, however, never be taken as a fiscal policy guide, since the choice between financing from taxes or from borrowings must be based on purely economic considerations.

There are two general classes of considerations which support the separation of budget accounts into a current section and a capital section. One class represents preponderantly management and accounting considerations. The other represents preponderantly economic considerations.

A. Administrative and Management Considerations

To improve the efficiency of administration and its legislative control it may be desirable to separate government activities which are devoted to the management of assets from government activities which are devoted to the disbursement of funds. This latter type of activity can usually be administered and budgeted by traditional departments and agencies. The former can generally be administered best by public undertakings. In order to provide a standard for measuring or controlling the efficiency of safeguarding the capital entrusted to the undertakings, it is necessary to provide for the accounting segregation of this type of activity. A double budget system facilitates this objective and also provides a basis for measuring the aggregate results of transactions in production and trading activities.

The use of capital accounts has been a part of the trend toward long-range public works and development planning. This factor would appear to represent a mixture of "management" and "economic" considerations. An advanced industrial economy may initiate a series of public works projects which extend over a period of years; an under-developed country may undertake a programme of resource development. In either case long-range plans and procedures will be adopted. The government must be in a position to appraise the volume and character of its development programme in relation to the total volume of resources within its jurisdiction. It must also be able to measure the current rate of construction and performance in accordance with the long-range programme. Since the government's annual budget may be considerably affected by the development programme, clarification of the relationship between the development programme and the budget may be facilitated by a separate listing of current and capital transactions in the government budget and an established linkage between the government's development programme and the total of government outlays. The annual budget results can thus be appraised in relation to and as

a part of the long-range plan. Similarly, the feasibility of the long-range plan can be appraised in terms of annual budget results. This method of integration of long-range capital projects with the annual budgets has recently been adopted in Belgium with regard to the reporting on the ten-year programme of public investment (1948-57).

A variant of this type of consideration appears to exist in those countries which have undertaken to expand the volume and proportion of assets within the control of the public sector. In such cases the capital budget serves to provide information on the extent to which such control has been asserted and serves to measure the efficiency of government "custodianship" (see II A).

B. Economic Considerations

A distinction between current and capital transactions will facilitate analysis of the economic effects of government receipts and expenditures. This distinction should assist economic analysis of two factors: the effect of government transactions on current consumption and on capital formation and the effect of government transactions on inflationary and deflationary influences in the economy as a whole.

1. To analyse the determinants of the level of total capital formation it is necessary to ascertain the sources of finance for capital formation. This requires that the government accounts show the portion spent on goods and services for current consumption, the portion saved or disinvested in the public sector on current account, the government's direct contribution to real asset formation, and an approximation of the reduction in private expenditures resulting from government receipts.

In this respect, methods of commercial accounting, with their separate profit and loss and capital accounts, come fairly close to the economists' and statisticians' conceptions of current and capital transactions. Existing systems of social accounting which reflect this method provide not only a measurement of national income and product, and the relative contribution of government, but also provide estimates of changes in existing social capital during a given period.

For purposes of economic analysis it can obviously not be a matter of indifference, whether an over-all excess of payments over receipts by the government has been due to expenditures on current consumption or due to investment outlays. In the first place this may be the result of misallocations of human and material resources, i.e. poorly managed public undertakings, with the consequent consumption of existing assets. In the second place the amount of the public contribution to capital formation might have been determined by the savings the government had been able to achieve on its transactions on current account. Thus, through efficient management and by application of commercial accounting methods, productive resources previously immobilized or wasted may be directed to other tasks, e.g., the construction of new productive facilities.

2. In analysing the inflationary or deflationary effect of government transactions the net addition to or subtraction from private income accounts as a result of the government's transactions is most significant. It should be ascertained whether the government has added more to private income accounts than it has subtracted from them, regardless of whether the net addition to private income accounts resulted from a deficit on current account or from investment outlays. For a measurement of the government's contribution to total personal income the distinction in current and capital transactions is not of primary importance.

It may be noted that in an inflationary situation the two government economic objectives may very well come into conflict. Government contributions to capital formation may increase over-all deficits at a time when the inflationary situation demands over-all surpluses. Similarly, a deflationary situation might call for increased outlays for goods and services currently consumed rather than for additions to real assets. Budget classification techniques are not intended to resolve conflicts of this character, but budget accounts can provide data which permit analysis of the effects of government activity on various sectors of the economy and which also reveal the over-all economic results of government activity. That is, adequate classification can provide the information necessary for a choice or compromise between conflicting economic objectives.

On the basis of the above considerations it should be emphasized again that there is neither a conceptual nor an institutional link between the capital account and borrowing for purposes of asset acquisition. Even in those countries which equate the concept of deficit and surplus with changes in the net assets of the State, the distinction in current and capital account provides, in itself, no justification for borrowing to finance increases in net assets. It is true that some governments have utilized a separate listing of capital assets as a means of stabilizing tax rates. To finance a large, non-recurrent outlay without a sharp increase in tax rates, the outlay is "capitalized", financed in part by borrowing and the tax rate increases spread over a number of years. But the stabilization of tax rates is only one, and probably a minor one of the factors which should be considered in the formulation of a government's financial programme. The differing impact of taxes and borrowing on levels of income, employment and prices and the relative availability of credit are likely, in most circumstances, to be more important determinants of debt policy than the stabilization of tax rates.

C. The Basis for Separating "Capital" and "Current" Expenditures

Budgetary classification should seek to delineate the types of transactions which may properly be labelled "current" and the types of transactions which may properly be labelled "capital". In practice it is difficult to adopt a set of rules which makes each of these categories completely homogeneous.

From an accounting standpoint it is possible to separate current from capital on the basis of life expectancy. That is, "current" may be defined to

include the purchase of goods and services which are consumed within the accounting period and "capital" may be defined to include the purchase of goods and services of a longer life expectancy. This distinction would provide a logical basis for separation.

A second logical basis of separation depends on the use of the concept "revenue producing". Some governments which have utilized a double budget have employed this dividing line. On this basis of classification the capital account would include such assets as resource development projects which were expected to be wholly or partially self-liquidating, public buildings for which annual rentals were to be charged to established departments and agencies and toll roads and toll bridges.

If the capital account is restricted to revenue-producing assets it is apparent that its total will be much smaller than if it is restricted to assets with a life expectancy beyond the immediate budget year. The former basis of classification is not wholly satisfactory for the measurement of the government's contribution to capital formation; that is, restricting the capital account to revenue-producing assets will understate the government's contribution to capital formation.

It is possible to utilize the revenue-producing concept as the basic rule for separating current from capital expenditures, but admit to the capital account additional government outlays which add to the nation's assets, although they are not productive in the financial sense. This requires that the capital account shows both revenue-producing and certain types of non-revenue-producing capital assets, appropriately sub-classified within the capital account. Under this broadened concept of capital expenditures it may be desirable to adopt the procedure used in Sweden, where the capital account lists the government's total capital expenditures, whether for revenue- or non-revenue-producing assets, with charges against the current account for writing off the unproductive part of expenditure listed in the capital account. The write-offs appear as expenditure in the working budget and have been applied to a certain portion of the outlays for public buildings, certain expenditures by the State railways, etc. This procedure has the advantage of producing a rough equivalence between the capital account and the government's additions to revenue-producing assets. The accounts set forth in the appendix illustrate the use of this technique.

In the separation of current and capital transactions in the government sector, it would appear to be desirable, so far as possible, to maintain a reciprocal treatment between the public and private sectors. Government revenues which appear to be paid from private capital accounts should be listed as a receipt in the central government capital account; revenues which appear to be paid principally out of current private income should be listed in the government's current account. On the expenditure side, the capital account should show those outlays which correspond with prevailing concepts of gross investment for the economy as a whole. An attempt has been

made, in the discussion which follows, and in the appendix accounts, to maintain this type of reciprocal treatment.

Before proceeding to a consideration of classification problems within the capital account, it may be useful to examine two types of government outlays which are frequently difficult to classify as "current" or "capital"—roads and national defence installations.

In the case of roads a number of reasonable alternative classifications are possible depending on the weight which is given to predominantly economic considerations or to predominantly management considerations. For purposes of economic analysis expenditure on roads represents real asset formation and should therefore form part of capital expenditure. According to the principle of separating administrative from trading or production activities of the government it would furthermore be logical to organize road construction and maintenance in the form of a public undertaking with asset preservation as the most important aspect of management. This solution, however, appears to be rather artificial, since, from the point of view of government administration, the main problem is much less one of maintaining the value of the capital invested (as recorded in a profit and loss account) than of exercising efficient control over disbursements of public funds, resembling very much in nature the current administrative activities of the government.

A number of reasonable alternative classifications are therefore possible, none of them entirely satisfactory from all points of view. If it were decided to maintain expenditure on public roads as part of current budget expenditure this could be done by writing off immediately outlays for road construction in the current account and transferring the funds set aside under this heading to the capital account, where road construction together with all other outlays for real investment would be shown. A more complex treatment, and one which would better reveal the significance of this type of outlay, would establish a public undertaking account for roads, with appropriate current and capital accounts for the undertakings.[2] The roads department capital account would then show as expenditure its gross investment in facilities, and on the receipt side the current surplus (central government subsidies less maintenance) and the estimated annual depreciation. The central government capital account would then reveal, on consolidation, the net additions to government real assets including roads. However, this introduces an element of artificiality into the accounts, because the so-called current surplus of the roads department could arbitrarily be varied by changing the size of the central government subsidy or grants to the road department.

For national defence installations the prevailing practice is to treat all such outlays as current without regard to life expectancy. This treatment can be justified on the ground that military installations do not add to a nation's productive assets in the sense of providing for the future a flow of

[2] See J. R. Hicks, *The Problem of Budgetary Reform*, pp. 27-29.

goods and services that adds to the volume of national income. However, it could also be argued that certain types of installations from which indirect benefits accrue should be listed as such in the capital account. Regardless of the classification adopted, it would be possible, if refinement is desired, to utilize the procedure employed in Sweden, where revenue-producing military assets (e.g. housing for military personnel) is treated as a capital account expenditure.

D. Classifications within the Capital Account

Certain types of transactions present particular difficulties in a budgetary structure which separates current and capital accounts. Apart from these "separation" problems the capital account itself should preserve certain distinctions if it is to be of maximum usefulness for purposes of economic analysis.

1. The capital account should distinguish between real investment and financial investment. Real investment is defined here to consist of the acquisition of newly produced assets which are a part of the nation's gross investment for the period. Financial investment consists of the acquisition of previously produced assets which do not affect the volume of current production. This latter type of investment, e.g., government purchase of private securities, will affect the distribution of income between the government sector and the private sector in subsequent years.

The difference between real and financial investment may be illustrated in the case of a land reclamation project. A part of the project expenditures may be devoted to the purchase of land; this would be financial investment within the meaning of the definition proposed here. Another part may consist of outlays for the construction of irrigation facilities. This portion should be counted as real investment and included in the gross product of the government sector, although total project costs and therefore the total amount included in the development budget will reflect both types of outlays. Supplementary budget schedules should show the part of the project cost devoted to the purchase of existing assets if the capital account is not to overstate the currently produced gross product of the government sector.

Some countries may nationalize a sector of the private economy by the acquisition of securities which were previously held under private ownership. This represents the purchase of previously produced assets and should be listed as financial investment in the capital account. In some instances nationalization may be accompanied by an exchange of government bonds for private securities. For example, the shareholders of the Bank of England received government bonds in exchange for their shares.

2. It may be useful to distinguish direct and indirect government investment within the capital account. Direct investment by government would comprise all investment carried out within the public sector itself, whether real or financial. Indirect investment would embrace loans or advances

which eventually lead to real asset formation in the private sector (see II D 3). This distinction, however, is likely to be less significant than the distinction between real and financial investment.

3. Government lending activities, where the loans are made to private enterprise, and the proceeds of the loan are used to purchase investment goods, should be distinguished within the capital account. This type of lending should be treated as a capital outlay whether it is conducted as part of the administrative functions of departments and agencies or by separate lending authorities.

It would be possible to treat the total volume of government lending during a given accounting period as real investment. This might be justified on the ground that the loans lead to an increase in gross investment expenditure by the amount of the loan, and that if the government loan had not been made, the corresponding private expenditure for investment would not have been forthcoming. On the other hand, to treat government loans as financial investment implies that the real investment expenditure is a private outlay. This procedure would appear to be preferable in most cases. Regardless of the method of classification which is adopted, further analysis is required to determine the total contribution to national income and product occasioned by the government loan. It may be that a loan of 100 will stimulate private lending by an additional 100. Or it may be that a government loan of 100 will occasion a restriction in private lending. This is a case in point to illustrate the general principle that no simple aggregative method of analysis can be expected to measure the total impact of government programmes on levels of economic activity.

4. Capital contributions to public undertakings should be listed in the capital account. If the public undertakings are treated in a system of annexed budgets, it would be appropriate to classify the treasury contribution to their capital funds as treasury expenditure on capital account and as a receipt in the capital account of the public undertaking. A consolidation of the capital account of the treasury and the public undertakings would cancel out this inter-governmental transaction, leaving as capital expenditure the actual investment made by the undertaking.

In most instances this procedure should lead to consistent treatment regardless of the nature of the investment. If the public undertaking is a trading enterprise its investment may take the form of inventories. If it is a nationalized industry its investment may take the form of inventories, plant and equipment. If the public undertaking is a government agency created for the purpose of making loans to finance current production on private account its net investment will consist of the excess of loans over repayment.

Adequate accounting for government debt operations is complicated in a number of countries by the operations of independent borrowing authorities

outside treasury control. Leaving aside the question of integrating and controlling such authorities, it is evident that if comprehensive data are to be available on government debt operations, a uniform basis for reporting such operations must be established. This basis should embrace the borrowing and lending activities of the treasury, the central bank and other independent or semi-independent authorities.

5. Investments by public undertakings or social insurance funds in the securities of the central government should appear as an expenditure in the capital account of the undertaking or fund. The consolidated capital account for government activities as a whole will cancel out this type of intragovernmental transactions. Consolidated capital account expenditures will thus be roughly equivalent to asset acquisition. In the accounts outlined in the appendix, all borrowing and debt redemption have been excluded from the capital account and are shown in a consolidated cash statement.

6. The capital account, together with the transactions running between the current and the capital account, should reveal, where possible, the difference between gross real investment and net real investment. This distinction could be shown directly in the capital account if it were possible to separate replacement and maintenance outlays from net investment in new facilities. However, this may not always be possible, so that a measurement of net investment cannot rest on the distinction between outlays for new productive facilities and outlays for replacement of existing facilities but must rest on an adequate treatment of depreciation and obsolescence.

7. An adequate treatment of depreciation and obsolescence involves transactions which affect both the current and the capital account.

It was suggested in I B that public undertakings should be controlled through a system of annexed, business-type budgets. In accordance with standard accounting procedure, such budgets would typically include an income and expense account and a capital account. Depreciation expense would appear as an expenditure in the current account in the form of a transfer to the capital account. The capital account would similarly record this transfer as a receipt.

Depreciation on non-revenue-producing assets must be treated in a somewhat different fashion, similar to that described above for write-offs in the current budget. If it is decided to establish a depreciation account for such assets as public buildings, it would then be necessary to carry an annual charge in the current budget for depreciation expense and transfer these amounts to a capital account to be made available for ultimate replacement of the facilities. This procedure, in countries with imperfect accounting records, may be expensive and time-consuming to establish, since it would require an inventory and valuation of all government property. Once established, it has the advantage of showing annual changes in the value of all facilities which are under the control of the government, whether or not revenue-producing.

E. Current Account Expenditures

A number of classification problems affecting expenditures on current account have necessarily been examined in the foregoing sections, particularly in the discussion of the budgetary treatment of social insurance programmes (I C), the basis for separating current and capital account (II C), and in the consideration of depreciation and obsolescence (II D 7).

Current account expenditures should be classified to reveal their economic character. This means, at a minimum, that the current account should show outlays for (1) transfer payments, (2) subsidies and (3) purchases of goods and services for current consumption by government. Each of these warrants additional description.

1. *Transfer payments.* In social accounting practice transfer payments are defined as outlays with no corresponding direct economic return in goods and services rendered. Typical examples include payments to war veterans, social insurance benefits, and such miscellaneous payments as allowances to transferred workers. The itemization of transfer payments in the current account should include an indication of the character of the recipient, e.g., veterans, farmers, the unemployed. A large part of government transfer payments may be included in the social insurance accounts and therefore, in many countries, excluded from the current operating budget of the central government.

One of the most important outlays which may be classed as a transfer payment is interest on government debt. There now seems to be rather general agreement that interest on war-created central government debt is properly classified as a transfer. However, where debt has been created for the purpose of acquiring real assets with a useful productive life it would be logical to treat the interest on such indebtedness as an expenditure for currently-produced goods and services. In practice this would require segregation of interest payments made on debt incurred to acquire real assets. Where such segregation is difficult to achieve, all government interest may be treated as a transfer payment. Conversely, if the war-incurred debt is a small proportion of the total and segregation difficult, it would be proper to classify this outlay as government expenditure for services.

2. *Subsidies.* Particular types of transfer payments may in some instances be appropriately sub-classified as subsidies. No attempt will be made here to suggest a general definition of this elusive term, or to establish what must necessarily be an arbitrary line of distinction between subsidies and other types of expenditures. However, it may be appropriate to call attention to some of the difficulties involved in the classification of subsidies for purposes of social accounting.

In some systems of budgetary classification, expenditures may improperly be labelled as subsidies. For example, grants to public undertakings to finance the replacement of capital equipment may be classed as a subvention or subsidy on current account.

One type of government expenditure which may properly be labelled a subsidy consists of payments made to hold down market prices of commodities or services in the private sector. This payment might take the form of absorbing a part of producers' costs, with corresponding price controls, or it might take the form of purchase and sale at a loss by a government trading enterprise. Since payments (subsidies) of this character will affect relative market prices of commodities, it would be possible to treat them as negative indirect taxes.[3] As a matter of accounting, this would mean segregating this type of subsidy from other types of government payments in current budget expenditure, rather than entering the subsidy only as a deduction item in the receipts side of the current accounts. If the items are properly classified, the statistician can make the necessary adjustments to arrive at a measurement of national income.

Another type of subsidy which is more clearly a transfer payment consists of the outlays which are made for non-production. The United States Government has made certain payments to agricultural producers which would fall in this category. It would appear to be desirable to distinguish this type of payment within the general category of subsidies.

3. *Expenditure for goods and services.* Where possible it is desirable to sub-classify the goods and services component to reveal (1) payments for wages and salaries and (2) payments for goods and services purchased from business enterprise. It may further be desirable in some circumstances to separate, within these classifications, military expenditures and non-military expenditures. In each instance these sub-classifications will be useful in determining the character of the recipient of government expenditures, i.e., agriculture, industry, etc.

F. Expenditure Classification at the Departmental Level

For purposes of social accounting the types of expenditure classifications which have previously been discussed need appear only in summary account form, not requiring a classification by department or agency which distinguishes transfer payments, subsidies and factor payments. However, there is considerable danger that unless this type of classification is carried to the departmental level, the summary account information will not be reliable.

Budgetary control accounts must always be maintained on a departmental basis; departmental records, in most instances, are likely to be well kept where there is orderly administration. But distinctions, for example, between subsidies which affect relative market prices and those which do not, may not be useful from the standpoint of departmental control. Departmental budget officers, as a practical matter, may feel that these distinctions interfere with their control functions. But unless the departmental records reveal the classifications which are needed for economic analysis, subsequent attempts by a central budget office or a statistical office to reclassify departmental accounts may be exceedingly difficult.

[3] *Measurement of National Income and the Construction of Social Accounts,* United Nations, Geneva, 1947, pp. 33-34.

III. REVENUE CLASSIFICATION

Adequate classification of government receipts for purposes of management and for purposes of economic analysis should observe three types of distinctions: (1) tax *v.* non-tax revenue, (2) direct *v.* indirect taxes, and (3) revenue derived from private income account *v.* revenue derived from private capital account.

A. Tax and Non-Tax Revenue

The distinction between tax and non-tax revenue is likely to be of greater significance for management purposes and of lesser significance for economic analysis. The most important non-tax revenues will generally consist of the profits of government monopolies conducted for revenue purposes, and the profits of public undertakings where revenue may be an important but subsidiary consideration. The economic effects of a surplus of current revenue from undertakings is likely to be similar to the economic effects of commodity taxation; that is, the surplus of profits of public undertakings and receipts from commodity taxation represent reductions in private income accounts. Nevertheless, where it is possible to separate, in the current revenue account, all items of non-tax revenue, this separation is desirable as a means of emphasizing the management aspect of this type of receipt.

B. Direct *v.* Indirect Taxes

The distinction between direct and indirect taxes is intended to differentiate between those levies which directly affect relative prices and those which do not.[1]

The difference between national income measured at market prices and national income measured at factor cost is, in effect, the volume of indirect taxes. The distinction between direct and indirect taxes is usually treated by conventional classifications. Direct taxes might be defined to include levies on personal income, corporate income, excess profits taxes and death duties. Indirect taxes might be defined as levies which are chargeable as a cost against the proceeds of sale from goods and services upon which they are levied. Examples would include customs and excises, sales taxes and commodity taxation generally.

The distinction between direct and indirect taxes, a distinction which is rather doubtful in some instances, should not occasion great difficulty for

[1] *Ibid.*, p. 31.

most purposes of revenue classification. If different types of tax revenues are carefully itemized the national income statistician has the raw materials available for the adoption of such classifications as may be useful and logical for his purposes.

C. Taxes on Private Income Accounts and Private Capital Accounts

Within the category of direct taxes it may be desirable to list separately those taxes which are generally a levy on private capital account, since these do not affect the volume of currently produced private income. In some instances it might be appropriate to include death duties in this category where it appears that they are paid from private capital accumulation. This varies according to the size of the tax and the method of payment and according to the general distribution of income and wealth. Another tax of this type is the capital levy. It is usually imposed for purposes of monetary stabilization; it may be paid from private accumulation. Where the rate of the capital levy and its period of payment are such as to indicate that it is a levy on private capital account it should be segregated in budget receipts from the taxes which are paid out of current private income.

In those countries where the budget is presented under two main heads—current and capital—taxes paid from private capital account could be treated as receipts in the capital budget. These receipts, in turn, may be made available for the government's capital expenditure programme. In Denmark, for example, death duties are a receipt in the capital budget. Taxes on exploitation of non-renewable resources and the proceeds of a capital levy could be similarly classified. However, this method of classification has the disadvantage of showing taxation revenue under two different headings.

If it is possible to differentiate revenues paid from private capital account and from private current account, the resulting budget classifications will be more homogeneous for purposes of economic analysis. That is, reciprocal treatment will have been established between the government's capital account and the capital account of the private sector and between the government's current account and the current account of the private sector. Receipts in the government's capital account will represent subtractions from private capital accounts. Receipts in the government's current account will represent withdrawals from private income accounts. As for expenditures, the government's current account outlays plus the real investment portion of the capital account will represent additions to private current or income accounts.

D. Other Problems of Revenue Classification

It was stated in I A and I B that budget revenues should be treated on a gross basis. However, a special case arises in those countries where tax administrations involve substantial refunds of tax receipts. These refunds may result from a re-determination of tax liabilities or from excess payments consequent upon a system of withholding or current tax payment.

In most of these cases it may be reasoned that the refunded tax payment is included in the current income account of the taxpayer. Therefore, tax refunds operate to reduce the amount which has been subtracted from private income, and should be shown separately and deducted from the total tax receipts. As a general rule, it may be concluded that tax receipts net of tax refunds should be included in budgetary receipts.

Unilateral transfers present an important problem in classification. For the paying country unilateral transfers are most likely to be included as an expenditure in the current budget. For the recipient country unilateral transfers are likely to be treated as an extra-budgetary item. This appears to be the procedure which has been adopted in most of the recipient nations in the European Recovery Program; counterpart funds are excluded from current budget receipts. However, in some countries receipts from unilateral transfers may be used for monetary stabilization, e.g., debt redemption, and would thus be reflected in the consolidated cash statement of the central government. In other instances these receipts may be made available for capital projects and therefore treated as a receipt in the capital account or in the consolidated cash account.

IV. OTHER ISSUES

A. Foreign and Domestic Transactions

Budgetary totals and the measurement of a deficit or surplus do not usually reflect the national or international character of receipts and expenditures. But the measurement of the impact of government activities on levels of national income, employment and price is very much affected by this consideration. Where government receipts and expenditures are divided between foreign and domestic activities it is important to distinguish between these two aspects in the central government accounts. The accounts which are most likely to be affected by this distinction are outlays for the military, the expenses of certain administrative departments and agencies operating outside the national boundaries, and the public debt accounts.

It would be possible to establish the distinction between central government transactions at home and abroad in one of two ways. A supplementary schedule could be appended to the budget accounts to provide this information. An alternative procedure is to incorporate the distinction in the basic budgetary accounts for the central government. This procedure is illustrated in the appendix tables.

B. Calendar Year and Fiscal Year

National income accounts are typically compiled on a calendar year basis, while government accounts are prepared on a fiscal year basis which may not coincide with the calendar year. The month in which the fiscal year starts has usually been determined in relation to the time when the legislature convenes, or perhaps in relation to the seasonal pattern of tax receipts (particularly in agricultural countries). The fiscal years of central and subordinate government units, as well as that of autonomous institutions, often start at different periods. This makes fiscal co-ordination within a country very difficult and imposes quite needless complications. In the international field, the disparity in fiscal years between the accounts of different countries makes co-ordination even on the regional level so difficult that regional economic development programmes have to be formulated on the basis of inadequate data.

The diversity of fiscal years arises from certain institutional differences; as joint economic action of governments increases in importance it becomes more necessary to remedy these diversities.

A partial solution to the lack of coincidence in accounting periods may be provided through quarterly or, if necessary, monthly data from the

government accounts. In some countries where government budgeting and accounting techniques are not well developed the provision of monthly or quarterly data may be a considerable burden. Furthermore, quarterly and monthly data must be used with care in arriving at an annual total because of the practice, in a number of government departments in various countries, to commit and/or disburse all unobligated appropriations during the last few weeks of a fiscal year. The lack of a uniform accounting period in the government and national income accounts will always give rise to difficulties which can be resolved only after careful examination of existing practices.

C. Cash and Accrual Basis

In the previous consideration of expenditure classification no effort was made to define with precision the basis on which outlays should be reported in the government accounts. It has been assumed throughout that all accounts of the central government would be shown on a cash basis. This conforms with the practice which has been established in most countries for the budgets and accounts of departments and agencies.

The cash basis of accounting is not uniform from one central government to the next. For example, in some jurisdictions "cash" expenditures may be measured on a "warrants issued" basis, in another on "checks issued" and in another on "checks paid".[1] The selection of a particular basis for the measurement of "cash" must rest on the procedures and control mechanisms which have been established in particular countries. But regardless of the basis established, it is of greatest importance to assure that "cash" is reported uniformly among the central government departments and agencies.

For public undertakings, the accrual basis is the most appropriate method of reporting; this method meets the requirements of commercial accounting. The apparent contradiction between the cash basis used for activities of an administrative nature and the accrual basis used for the public undertakings has been bridged in the system of accounts outlined in the appendix by including, in the consolidated current account, the net results of the activities of the undertakings. These net results are the cash equivalents of profits calculated on an accrual basis; they may be combined with cash receipts without serious distortion. The instance in which distortion is most likely to occur is where expenditures are rising or falling rapidly from one fiscal year to the next with a corresponding lag in the "normal" relationship between cash and accrual.

National income accounts are usually presented on an accrual basis; that is, transactions are recorded at the time the services are performed or the goods produced. The integration of public sector accounts with the social accounts is then a matter of combining and inter-relating the accrual basis utilized for the private sector and the mixed cash and accrual basis used for the public sector.

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[1] Cf. United States practice.

V. CLASSIFICATION IN PROVINCIAL AND LOCAL BUDGETS

This paper has attempted to focus attention on the structure and classification of central government budget accounts. However, many of the issues which have been discussed in a context of central government problems are equally relevant for provincial and local government budgets. The very number and variety of provincial and local government organizations within any one country complicate the application of a generalized classification system.

In quantitative terms the activities of provincial and local governments may be extremely important, not only in the provision of traditional government services, but also with respect to economic development. In some countries public works outlays are the major responsibility of local governments, sometimes supplemented by central and provincial funds. In these instances no development programme of the central government can be executed effectively without knowledge of the programmes at other levels of govrnment, and without some degree of co-ordination among the activities, plans and programmes. This requires a considerable degree of uniform budget reporting at all levels of government.

A. Organizational Complexity

Some of the classification techniques which are relevant for central government budgets can be applied only with difficulty to provincial and local organizations. Part of the difficulties of application are inherent in the complexity of provincial and local government.

These units are likely to have an extensive pattern of relationships with respect to inter-governmental transfers, so that a local unit may be the recipient of grants from the provincial government and also from the central government. Local functions are very often financed from a combination of grants from other levels of government plus revenues derived from local tax resources. This complicates a resulting consolidated statement of local receipts and expenditures, although the general principles governing such a consolidation should not differ substantially from those pursued by a central government in consolidating its departments and agencies, public undertakings and funds.

Organizational complexity may intensify the difficulties in the preparation of consolidated statements in another way. For the central government, there may be a lack of coincidence between the fiscal year and the calendar

year. But for provincial and local governments there may be many differing fiscal years, each grounded in traditional practice. Organizational complexity may also make difficult the identification of public undertakings at the provincial and particularly at the local level. The line between the public sector and the private sector may be even harder to draw at the local level than at the central government level.

B. Restrictions on Government Authority

Generally provincial and local governments have traditionally operated in a more restricted framework than is true of central governments. Central government statutes may restrict provincial and local sources of tax revenue, and restrict borrowing activities. State and local functions are frequently prescribed and the margin of flexibility in undertaking new types of government programmes is usually considerably narrower than is the case at the central level. Provincial and local governments usually do not have unlimited access to the credit facilities of central banks as does the central government.

These restrictions have a number of significant consequences on provincial and local budget classification and structure. For example, provincial and local governments may not be able to borrow for current operating purposes, but frequently can obtain credit for capital improvement programmes. This will mean, in practice, that provincial and local governments will be forced to establish some type of capital accounting. The restrictions on borrowing that have often been applied to provincial and local governments have also stimulated interest in depreciation accounting and have served to emphasize that the preservation and control of assets is an important aspect of budgeting.

On the other hand, the fact that provincial and local governments operate in a legally restricted framework means that they are to some extent subject to control and direction from the central government. A central government in some countries can, within the scope of this pattern of control, secure adherence to centrally-determined policy standards through the power which it exercises over grants and subsidies.

It is not possible within the scope of this paper to develop further detailed suggestions for the classification of budget receipts and expenditures of provincial and local governments. However, it is important to recognize the nature of the classification problems as applied to those levels of government and to recognize further that no system of government accounts is complete without inclusion of this segment.

VI. THE APPLICABILITY OF CLASSIFICATION SYSTEMS

It has been the purpose of this paper to examine a range of problems relating to budget structure and budget classification. The paper has focused on those issues which are of greatest significance where central government accounts are required to provide information for purposes of economic analysis. It has not been the intent of this paper to develop a set of budgetary rules or recommended procedures for adoption by central governments. Budgetary rules and classification techniques must always be adapted to the institutional environment in which they must operate. Very often a country's central government budget structure reflects a long background of discussion, trial and error, and compromise solutions. Sweeping revisions are not possible without a great deal of time and attention to problems of budgetary reform. However, budgetary reforms are now under way in a number of countries and others will be undertaken in the future. As a part of these reforms, attention to the economic significance of budget structure and classification should yield a more useful end product.

It may be pertinent to direct attention to the types of problems which are likely to be most difficult in the application of the classification techniques suggested here.

One of the problems which is likely to be encountered—a problem of comprehensiveness—is the determination of the dividing line between the public and the private sector. In many countries certain types of undertakings will represent a mixture of public and private activities. For example, the central government may provide capital for and retain certain ownership rights in development enterprises. The enterprises, however, may be subject to little or no central government administrative or legislative control. Should the undertaking be brought within the framework of the central government budget? In a number of countries enterprises of this character are numerous and the classification problems which they pose are exceedingly difficult to resolve.

A second difficulty which is likely to be encountered in applying the type of classification system proposed here is the identification and isolation of public undertakings. Very often an established department or agency will conduct, as part of its programme, an undertaking which involves the purchase and sale of commodities, or a specialized type of subsidy programme, or possibly a form of lending operations. The personnel of the department or agency engaged in this undertaking may not be segregated within the

department; the funds for the programme may not be isolated from other departmental funds. As a matter of practical administration the application of a commercial-type budget to this type of activity may be difficult.

A third difficulty which may be encountered is the establishment of meaningful relations between the current account and the capital account. It was pointed out in II D 6 and II D 7 that a capital account requires depreciation accounting. In turn, if depreciation accounting is to be established on a consistent basis, an inventory of physical assets must be established and life expectancies estimated. This may be expensive and time-consuming. It may be necessary, in some countries which have not previously practised capital accounting, to establish the account on a limited basis at its inception and extend it over a period of years.

Only those who are intimately familiar with the economic and political institutions of a given country can determine the applicability of a generalized budget classification to the specific situation in which it must operate. A major reform in budget classification and structure generally proceeds in a piecemeal fashion, not by a sweeping revision. The piecemeal reforms, however, should be undertaken with a view to the ultimate goal, and immediate and partial budget reforms should not be of such a character that they hamper progress toward the long-run goal.

It is difficult to suggest the necessary first steps in a series of partial reforms in budget classification and structure. Moreover, questions of specific applicability lie outside the scope of this paper. In one country, where central government budget data are limited to traditional departments and agencies, and where there are many independent governmental authorities outside the scope of the budget, the first step in budgetary reform might be to establish a reporting system for these independent authorities. In another country, where the central government data are reasonably comprehensive, it may be desirable to proceed immediately to a distinction between current and capital transactions.

It may be noted in conclusion that the major issues of budget structure and classification considered here are pertinent to the problems faced by all central governments, whether or not the country has advanced budgeting techniques. However, some of the refinements in classification discussed above may not be relevant to the problems of specific countries. Conversely, some countries may find useful certain types of refinements which have not been suggested here.

VII. SUMMARY

Many governments are handicapped in devising a public policy designed to promote stability and development because they lack the elementary tools for budgetary planning. Moreover, the variation in presentation of budgetary programmes is often so great that the minimum of comparability needed for regional or other international co-operations is absent. Therefore, certain basic requirements which are presumed to have general validity allowing for reasonable deviations based on the institutional characteristics of individual governments have been discussed in this study.

The main difficulty in establishing classification principles exists in that budget accounts of central governments must serve several purposes at once. They must facilitate the process of formulating and adopting the budget; they must be useful tools for programme planning, administration and control, and simultaneously they must also reveal the information necessary for formulation and appraisal of the central government's economic programme.

This study has focused attention on the last of these objectives, the problems of budgetary structure and classification which are significant in analysing government economic policy. In order to devise a comprehensive fiscal policy it is necessary that the budget reflect all of the financial activities of the central government. The growth of the economic role of the State has contributed to the creation of a large number of public undertakings engaged in production, trading and financial operations. The complexity of government programmes requires many diverse organizational forms. These diversities must nevertheless observe a pattern of uniformity that permits measurement and appraisal of government operations as a whole. This means that financial transactions must be reported in such a way as to show clearly the connexion between the over-all results of total government receipts and expenditures and the corresponding changes in cash holdings and public debt outstanding. Trading, production and other commercial activities of the government require methods of accounting which differ from those applied to administrative departments and agencies. These methods of accounting are those commonly used for private business enterprises which differ from those used for the administrative activities of government.

These business accounts, however, should be established on a basis which permits their consolidation in the summary accounts of the government. The same problem of organization complexity arises in the budget accounts of provincial and local governments. Here again a line must be drawn between the public and private sectors and also a uniform basis must be established for consolidating provincial and local government activities with the activi-

ties of the central government. A consolidated budget indicating the over-all income-generating effect of government finance is indispensable for the analysis of the inflationary or deflationary tendencies existing in the economy.

One of the most significant features in the presentation of budget data in a form useful for economic programming is the distinction between transactions on current account and transactions on capital account. The incorporation of this distinction in a budget classification system should not serve as a policy guide either to justify borrowing for the sake of asset acquisition and to require that all current expenditure be met by taxation, or to conceal deficits in the budget as a whole. The distinction between capital and current accounts serves the purpose of identifying government capital formation and permits effective measurement and control of assets under the jurisdiction of government agencies.

The classification of revenues should, if possible, attempt to distinguish between subtractions from private capital accounts and from private income accounts. Here it is of relevance to identify the significant categories so that the economic character of the taxpayer can be ascertained. Moreover taxes and non-tax revenue should be distinguished and grouped into economically meaningful categories.

Finally, a system of budgetary classification should, where possible, separate "at home" and "abroad" transactions, preserve uniformity with respect to calendar and fiscal year reporting, and maintain a uniform basis for measuring "cash" and "accrual" transactions.

Adequate classification of government financial data, both for the central government and for provincial and local governments, and the comparability of these data among countries are prerequisites for any international co-ordination of economic programmes.

TECHNICAL APPENDIX

A. Introduction

It would be rather difficult and perhaps an impossible task to develop a set of model public finance accounts, equally satisfactory from the point of view of budgetary procedure and from the point of view of social accounting requirements. Nevertheless, government accounts could be organized in such a way as to provide a reasonable basis for economic analysis, while maintaining the elements which are essential to meet the traditional budgetary requirements. The system of accounts indicated in the tables below is similar to the kind of classification employed in Sweden since 1937 and also similar to that suggested by Professor J. R. Hicks. It represents a general framework which might be adjusted to the specific needs of a country. Its major purpose is to illustrate by concrete examples some of the discussion contained in the preceding sections.

The accounts described below represent a complete consolidation of the financial transactions of the central government, the public undertakings and the social insurance funds. This means that transactions among the government sectors are not shown since they cancel out.

It may be difficult, however, in particular countries to achieve such a complete consolidation of the transactions within the government sector of the economy. This applies, for instance, whenever charges are made for the services performed by one government department for another. In Sweden, to give an example, public buildings are maintained by a special fund which charges rentals to the various government departments occupying the buildings. These rentals appear again as expenditure items of these departments. Similarly, a supply ministry might purchase office equipment and in supplying it might charge another ministry the price for it. In such cases the size of expenditure and receipts would be overstated, unless it is possible to exclude these transactions.

In the tables given below there is one exception to the principle of complete consolidation of all government transactions. Wages and salaries of government employees are shown including the employees' contributions to their pension funds (item 1 (iii) (*a*)—expenditure on goods and services). The government contribution to the pension fund is shown separately (item 1 (iii) (*b*). The government employees' contribution appears again on the receipts side of the table under social security taxes (item 11 (iii) (*aa*)) as well as the government contribution (item 11 (iii) (*ba*)). Were the accounts fully consolidated, wages and salaries would be stated net of

pension fund contributions of the employees. Correspondingly, those contributions would not appear again on the receipts side (item 11 (iii) (*aa*)) and only the actual expenditure on government employees' pensions would be shown (see item 3 (*d*)).

While only the *net* results of the current transactions of the public undertakings are given in the consolidated statements, social security expenditure and receipts are included on a gross basis. For a complete presentation of all government transactions it would be necessary to provide, in addition to the consolidated statement of accounts, statements on a gross basis showing the transactions of the public undertakings, and also of the social insurance funds, in case it were decided to include the latter transactions only on a net basis in the consolidation.

Two additional columns have been provided for "Expenditure" as well as for the "Receipts" in which transactions affecting the domestic economy are shown separately from those affecting the rest of the world. In analysing the effects of the transactions of the public sector on domestic income accounts such information would be essential. For example, some Allied war expenditures were financed by advances from the national governments' respective central banks, in the territory in which the expenditures were made, and added to private income accounts in these countries. They were an expenditure in the budgets of the Allied countries but not an addition to the private income accounts of their residents. The expenditure abroad by the Swiss Government for bulk purchases of foodstuffs for domestic consumption is another example. Even if such a breakdown is not readily available for each item of expenditure or receipts, it would be most useful to subdivide the items for which the distinction in transactions effected "at home" and in transactions effected "abroad" has quantitative importance.

The tables, which attempt to provide an illustration of an internally consistent and interdependent system of accounts, have been grouped in three sections, A, B, and C. All items separately shown in the three statements are numbered consecutively. Items which appear more than once in the statements are indicated by identical numbers to show clearly the link between the different sets of accounts.

B. Consolidated Accounts

Section A—"Consolidated government accounts"—includes four statements. First the "Current or revenue account", second the "Capital account" and third the "Over-all financial results", in which the results of all transactions on current as well as on capital account are summarized. This last statement again is linked to the "Consolidated cash position" (statement IV) which indicates the way in which the financial transactions of the government have been financed, such as by borrowings, foreign grants received, monetary operations and drawings on cash. There exists a further link between net borrowings (net balance of proceeds from borrowings and redemption of debt),

as included in the "Consolidated cash position" and the changes in the public debt, as given in section C—"Public debt". In case of a divergence between net borrowing and the increase in the public debt, table II of section C should indicate fully the nature of this divergence. Under section B—"Aggregated accounts of public undertakings"—the gross transactions of the public undertakings are shown, subdivided into a trading account and a profit or loss account. The items shown separately on the receipt and expenditure side of these two statements have been selected on the basis of their economic significance. Cross references have been made with respect to those items, which appear in section A—"Consolidated statements", such as surplus of profits, depreciation allowances, interest on treasury advances and price subsidies.

(Text continues on page 45)

A. CONSOLIDATED

(Central Government,

I. *Current or*

	Expenditure		
	At home	*Abroad*	*Total*
1. *Expenditure on goods and services for current consumption*			
(i) Civil administration:			
(*a*) Supreme organs of State, etc.	–	–	–
(*b*) Foreign affairs	–	–	–
(*c*) Police	–	–	–
(*d*) Justice	–	–	–
(*e*) Education	–	–	–
(*f*) Public health	–	–	–
(*g*) Labour	–	–	–
(*h*) Agriculture, industry, trade, merchant marine, etc.	–	–	–
(*i*) Finance	–	–	–
(*j*)	–	–	–
(*k*)	–	–	–
(*l*)	–	–	–
(*m*) Other	–	–	–
TOTAL CIVIL ADMINISTRATION	–	–	–
(ii) Defence:			
(*a*) Army	–	–	–
(*b*) Navy	–	–	–
(*c*) Air Force	–	–	–
(*d*) Other	–	–	–
TOTAL DEFENSE	–	–	–
Total expenditure on goods and services for current consumption	–	–	–
(iii) Of which:			
(*a*) Wages and salaries of government employees	–	–	–
(*b*) Government contribution to employees' pensions	–	–	–
(*c*) Purchase of materials and services	–	–	–
TOTAL ($a + b + c$)	–	–	–
2. *Interest on public debt*			
(*a*) Domestic issues	–	–	–
Less: interest on debt held by funds and undertakings comprised in consolidation	–	–	–
TOTAL (*a*)	–	–	–
(*b*) Foreign currency issues	–	–	–
TOTAL INTEREST	–	–	–

Public Undertakings and Funds)

Revenue Account

	Receipts		
	At home	*Abroad*	*Total*
10. *Income from property*	-	-	-
11. *Taxes*			
(i) Direct taxes:			
(*a*) Personal income tax	-	-	-
(*b*) Corporate income tax	-	-	-
(*c*) Excess profits tax	-	-	-
(*d*) Property tax	-	-	-
(*e*) Capitation tax	-	-	-
(*f*) Duties on gifts *inter vivos*	-	-	-
(*g*)	-	-	-
(*h*)	-	-	-
(*i*)	-	-	-
(*j*) Other direct taxes	-	-	-
TOTAL DIRECT TAXES	-	-	-
(ii) Indirect taxes:			
(*a*) Import duties	-	-	-
(*b*) Export duties	-	-	-
(*c*) Excise duties	-	-	-
(*d*) Turnover tax	-	-	-
(*e*) Transportation taxes	-	-	-
(*f*) Stamp duties	-	-	-
(*g*)	-	-	-
(*h*) Other indirect taxes	-	-	-
TOTAL INDIRECT TAXES	-	-	-
(iii) Social security taxes:			
(*a*) Employees (direct taxes):			
(*aa*) Government employees	-	-	-
(*ab*) Other employees	-	-	-
(*b*) Employers (indirect taxes):			
(*ba*) Government (see item 1 (iii) (*b*))	-	-	-
(*bb*) Other	-	-	-
TOTAL TAXES (11)	-	-	-

A. CONSOLIDATED GOVERNMENT

(Central Government,

I. *Current or*

	Expenditure		
	At home	*Abroad*	*Total*
3. *Social security payments*			
(*a*) Old-age pensions	–	–	–
(*b*) Family allowances	–	–	–
(*c*) Unemployment allowances	–	–	–
(*d*) Pensions to government employees	–	–	–
TOTAL SOCIAL SECURITY	–	–	–
4. *Price subsidies*			
(*a*) To public undertakings (see item 48)	–	–	–
(*b*) To private enterprises	–	–	–
TOTAL PRICE SUBSIDIES	–	–	–
5. *Other transfers to private income accounts*			
(*a*) War pensions (other than to government employees—see 3 (*d*)	–	–	–
(*b*)	–	–	–
(*c*)	–	–	–
TOTAL OTHER INCOME TRANSFERS	–	–	–
6. *Grants to local governments*	–	–	–
7. *Grants to foreign governments*	–	–	–
8. *Depreciation allowance on non-revenue-producing investments*	–	–	–
TOTAL CURRENT EXPENDITURE (1-8)	–	–	–
9. *Surplus on current account*	–	–	–
TOTAL (1-9)	–	–	–

ACCOUNTS (*continued*)

Public Undertakings and Funds)

Revenue Account

	Receipts		
	At home	*Abroad*	*Total*
12. *Surplus of fiscal monopolies*	-	-	-
TOTAL TAXES INCLUDING MONOPOLIES (11 + 12)	-	-	-
13. *Surplus of profits of public undertakings:*			
(*a*) Net surplus of profits	-	-	-
(*b*) Interest on capital advanced to undertakings	-	-	-
TOTAL SURPLUS OF PROFITS	-	-	-
14. *Interest (other than 13(b)), dividends, annuities*	-	-	-
15. *Other current income*	-	-	-
TOTAL CURRENT RECEIPTS (10-15)	-	-	-
16. *Deficit on current account*	-	-	-
TOTAL (10-16)	-	-	-

II. *Capital*

	Expenditure		
	At home	Abroad	Total
17. *Gross investment (including maintenance and repair)*			
(*a*) Revenue-producing real assets	–	–	–
(*b*) Non-revenue-producing real assets (see items 8 and 21 (*b*))	–	–	–
TOTAL GROSS INVESTMENT	–	–	–
18. *Transfers to private capital accounts*			
(*a*) Purchase of already existing real assets	–	–	–
(*b*) Purchase of securities	–	–	–
(*c*) Advances and loans:			
(i) For capital formation	–	–	–
(ii) For current production	–	–	–
(*d*) Other	–	–	–
TOTAL TRANSFERS TO PRIVATE CAPITAL ACCOUNTS	–	–	–
19. *Advances and loans to local and foreign governments* (excluding intra-governmental lending)	–	–	–
TOTAL CAPITAL EXPENDITURE (17-19)	–	–	–
20. *Excess of capital receipts over payments*	–	–	–
TOTAL (17-20)	–	–	–

III. *Over-all*

	Expenditure		
	At home	Abroad	Total
Total current expenditure (1-8)	–	–	–
Total capital expenditure (17-19)	–	–	–
TOTAL	–	–	–
Deduct: Depreciation (item 8)	–	–	–
25. *Total expenditure*	–	–	–
27. *Over-all balance* (items 26 less 25 = items 16 and 24 less 9 and 20)			

Account

	Receipts		
	At home	*Abroad*	*Total*
21. *Depreciation, as provided in:*			
(*a*) Current expenditure of public undertakings (see statement B, item 42)	–	–	–
(*b*) Current expenditure (item 8)	–	–	–
TOTAL DEPRECIATION ALLOWANCES	–	–	–
22. *Transfers from private capital accounts:*			
(*a*) Death duties	–	–	–
(*b*) Capital levies	–	–	–
(*c*) Proceeds from sale of real assets	–	–	–
(*d*) Sales of securities	–	–	–
(*e*) Repayments of advances and loans	–	–	–
(*f*) Other	–	–	–
TOTAL TRANSFERS FROM PRIVATE CAPITAL ACCOUNTS	–	–	–
23. *Repayments of advances and loans to local and foreign governments* (excluding repayments of intra-governmental borrowings)	–	–	–
TOTAL CAPITAL RECEIPTS (21-23)	–	–	–
24. *Excess of capital expenditure over receipts*	–	–	–
TOTAL (21-24)	–	–	–

Financial Results

	Receipts		
	At home	*Abroad*	*Total*
Total current receipts (10-15)	–	–	–
Total capital receipts (21-23)	–	–	–
TOTAL	–	–	–
Deduct: Depreciation (item 21 (*b*) = item 8)	–	–	–
26. *Total receipts*	–	–	–

IV. *Consolidated*

	Incomings
28. *Cash at beginning of financial year*	–
26. *Total receipts*	–
29. *Foreign grants received*	–
30. *Gains from monetary operations*	–
31. *Proceeds from borrowings:*	
(*a*) Domestic	–
(*b*) Foreign	–
32. *Other*	–
33. *Grand total*	–

B. AGGREGATED ACCOUNTS

I. *Trading*

	Expenditure		
	At home	*Abroad*	*Total*
39. *Personnel charges:*			
(*a*) Wages and salaries	–	–	–
(*b*) Pensions	–	–	–
40. *Purchases of goods and services*	–	–	–
41. *Inventory adjustments*	–	–	–
42. *Depreciation allowances* (see 21 (*a*))	–	–	–
TOTAL TRADING EXPENDITURE	–	–	–
43. *Trading profit* (44—(39 + 40 + 41 + 42))	–	–	–
TOTAL	–	–	–

II. *Profit and*

	Expenditure		
	At home	*Abroad*	*Total*
45. *Interest on treasury advances* (see 13 (*b*))	–	–	–
46. *Net surplus of profit* (see item 13 (*a*))	–	–	–
49. *Surplus of profit* (see item 13)	–	–	–

Cash Position

	Outgoings
25. *Total expenditure*	–
34. *Losses on monetary operations*	–
35. *Redemption of debt:*	
(*a*) Domestic	–
(*b*) Foreign	–
36. *Other*	–
37. *Cash at end of financial year*	–
38. *Grand total* (equal to item 33)	–

OF PUBLIC UNDERTAKINGS

Account

	Receipts		
	At home	*Abroad*	*Total*
44. *Sales of goods and services*	–	–	–

Loss Account

	Receipts		
	At home	*Abroad*	*Total*
43. *Trading profit*	–	–	–
47. *Interest on credits granted*	–	–	–
48. *Subsidies received* (see item 4 (*a*))	–	–	–
49. *Surplus of profit* (see item 13)	–	–	–

C. PUBLIC DEBT

I. *Public Debt Outstanding*

(In national currency)

	Beginning of financial year			*End of financial year*			
	Held at home	*Abroad*	*Total*	*Held at home*	*Abroad*	*Total*	*Change during year*
50. *Domestic currency obligations*							
Long-term	–	–	–	–	–	–	–
Short-term	–	–	–	–	–	–	–
TOTAL DOMESTIC ISSUES	–	–	–	–	–	–	–
Of which held by:							
(*a*) Central bank	–	–	–	–	–	–	–
(*b*) Commercial banks	–	–	–	–	–	–	–
(*c*) Private persons	–	–	–	–	–	–	–
(*d*) Government departments included in consolidation of accounts	–	–	–	–	–	–	–
(*e*) Other	–	–	–	–	–	–	–
51. *Foreign currency obligations*	–	–	–	–	–	–	–
Of which issued in:							
(*a*) ....[a]	–	–	–	–	–	–	–
(*b*) ....[a]	–	–	–	–	–	–	–
(*c*) ....[a]	–	–	–	–	–	–	–
TOTAL GROSS PUBLIC DEBT	–	–	–	–	–	–	–
52. *Less: intra-governmental obligations* (see domestic debt, item (*d*))	–	–	–	–	–	–	–
53. *Net public debt* (50 + 51 − 52)	–	–	–	–	–	–	–
54. *Net domestic debt* (50 − 52)	–	–	–	–	–	–	–

[a] Indicate in subsidiary statement amounts outstanding in currency of issue.

II. *Public Debt Reconciliation Table*

Financial year	*Financial year ending...*
55. *Net borrowing:*	
(a) Domestic (31(a)–35(a))	–
(b) Foreign (31(b)–35(b))	–
56. *Increase in public debt*	
(a) Domestic (see item 54 —last column)	–
(b) Foreign (see item 51— last column)	–
57. *Difference between net borrowing and increase in public debt*	
(a) Domestic (55(a)–56(a))	–
Arising from:	
(i) Debt assumption	–
(ii) Debt repudiation	–
(iii) Accrued interest	–
(iv) Other	–
(b) Foreign (55(b)–56(b))	–
Arising from:	
(i) Debt assumption	–
(ii) Debt repudiation	–
(iii) Accrued interest	–
(iv) Change in exchange rate applied	–
(v) Other	–

In the following the detailed composition of the accounts included in section A will be discussed.

In accordance with the discussion in the preceding pages, a distinction has been made in the above tables between government transactions on current account and on capital account. All items have been included in current expenditure which do not result in the creation or acquisition of capital assets. The deficit or surplus on current account would therefore give a good indication of the degree by which the net liabilities of the government have been increased or decreased during the budget year. This balance would thus represent an adequate definition of the budgetary deficit or surplus proper. It may be noted that other concepts of surplus or deficit are possible, and useful for particular purposes. Additions to or subtractions from private income accounts, or net effect on money supply are examples of alternative concepts. While for instance the "income effect deficit" is not shown as a separate entry, it can be approximated by adding to the current deficit or subtracting from the current surplus, net investment (gross investment item 17) less depreciation (item 21).

C. Current Transactions

Expenditure on goods and services for current consumption (item 1) has been subdivided according to organizational unit. Where organizational units follow the pattern of government functions, this breakdown would correspond with the so-called functional classification. In an alternative classification, current expenditure on goods and services has further been subdivided according to its economic character (see item 1 (iii)), such as wages and salaries, the government's contribution to the employees' pensions fund and purchases of materials and services from outside. It is important to segregate payments to factors of production, which represent compensation for services currently performed, from transfers to personal income accounts which are not matched by contributions to the national product. However, alternative classification schemes could conveniently be adopted for the subdivisions of the broad economic categories, indicated in the tables above. In addition, classifications according to purpose, nature, etc. could be adopted.

Current expenditure on goods and services should at minimum be subdivided into expenditure for defence (item 1 (ii)) and for civil administration (item 1 (i)). Defence expenditure should include all outlays, both current and capital, for defence purposes. Interest on public debt (item 2) has been divided into payments on domestic currency issues and foreign currency issues. Since the expenditure columns provide for a distinction between payments abroad and at home, it is possible to ascertain the exact amounts of interest payments abroad regardless of the currency of issue.

In social security payments (item 3) pension payments to government employees (3 (*d*)) have been included with other transfers to private beneficiaries. Price subsidies (item 4) are subdivided into payments to public undertakings and to private enterprises. Such subsidies to public undertakings would again appear on the receipts side of the "Aggregated accounts of public undertakings" (see section B). Grants to foreign governments are shown as current expenditure (item 7), while foreign grants received appear under incomings in the "Consolidated cash position" (item 29).

On the receipts side a distinction is made between "direct" and "indirect taxes". While, for purposes of social accounting, such a distinction between the gross national product at market prices and at factor cost is required, the grouping of taxes into these two categories is admittedly arbitrary. The decision to classify a tax as "direct" or "indirect" will differ from country to country or even from period to period in accordance with the nature and incidence of the taxes to be classified. For this reason the classification given in the table (item 11) indicates the possible degree of detail in itemizing taxes rather than an exact pattern of classification. As long as tax receipts are listed in sufficient detail they can always be grouped according to the judgment of the economic analyst.

Receipts from capital levies and death duties are shown under capital receipts (item 22). Again, the distinction between taxes paid from current income accounts and from capital accounts is rather arbitrary. A proportion of income taxes, especially those collected from the higher income brackets, can be assumed to be drawn from funds which otherwise would have been saved, rather than from funds which would otherwise have been spent for current consumption. On the other hand, capital levies may be paid to a certain extent from current incomes, depending on the tax rate and the length of period in which the tax liability may be met. The Italian capital levy, after the Second World War, provided for the possibility of paying in instalments during a six-year period. For a proportion of taxpayers this meant that the levy was paid from current income, and in part acted to restrict private consumption expenditures. Conversely, some levies classified as payable from income accounts may actually be paid from private capital accounts. In practice it is not possible to separate these categories with precision.

The aggregate surplus of fiscal monopolies is shown as item 12. Since a part of these monopoly profits could be considered as tax receipts, a second total, giving tax receipts including monopoly profits, is shown.

The surplus of profits of the public undertakings (item 13) as included in current receipts should be calculated along lines of commercial accounting, i.e., after deduction of interest charges on capital advanced from the treasury. This includes interest charges on the capital invested by the treasury in public undertakings as well as temporary advances received from the treasury. However, the advances themselves or their repayment would not appear in the current account. While profits would thus be shown after deduction of interest charges (item 13 (*a*)) the receipts of the treasury in respect of interest would appear as a separate item on the receipts side (see 13 (*b*)). However, it would be possible to show only a global amount under item 13, "Surplus of profits" in the case that profits proper and interest charges cannot conveniently be separated. Separate statements, as illustrated in section B, should be included in the accounts. These would show the manner in which net results were related to the gross transactions of the undertakings.

D. Capital Transactions

The capital account as outlined in section A represents the consolidated capital transactions of the central government itself, as well as of the public undertakings and funds. Accordingly, all intra-governmental transfers will cancel out in such consolidation.

The capital account could be set up in such a way that total expenditure and receipts would always balance. This could be accomplished by including proceeds from loans in capital receipts and assuming that the expenditure side of the capital budget includes only payments which either lead to the creation of new assets or to the acquisition of existing assets. In such a statement the increase in debt resulting from such expenditures would be offset

by the increase in assets. However, it is suggested here that a clearer picture of the final results of all government transactions could be obtained by excluding from capital receipts proceeds of loans, and from capital expenditures redemption of debt as well as changes in the cash position. Thus, because of the increase in assets accompanying it, the balance on capital account is not called deficit (or surplus), but simply excess of capital expenditure over receipts. This balance, together with the surplus or deficit on current account, should indicate the over-all financial result of all central government transactions. However, this presentation of the capital account makes it necessary to show an additional statement called "Consolidated cash position", which reflects: (1) total net borrowing or net debt redemption, (2) the effects of monetary operations including gains or losses on account of seigniorage, revaluation of gold or foreign exchange, and (3) foreign grants received.

Capital expenditure would embrace, under the heading of gross investment, all payments resulting in new real assets including expenditure on maintenance and repair. Under the heading of "Transfers to private capital accounts" the so-called financial investments are shown, such as purchase of securities and purchase of existing real assets: in short, those expenditures which do not result in the creation of new assets but simply in transfer of ownership of existing ones. On the receipts side of the capital account, taxes which subtract from private capital accounts but not from private income accounts are shown. This includes capital levies and other transfers from capital accounts, such as receipts from the sales of government-held real assets.

Gross investment as defined above includes total real asset formation regardless of whether the new assets are revenue-producing or non-revenue-producing. This method might not be considered satisfactory in all instances because it results in a shift to capital expenditure of such items as road construction and maintenance, which in many countries are classified as current expenditure. For administrative purposes it would be logical to include such non-revenue-producing capital outlays with other current civil expenditure of government. On the other hand, for purposes of analysing the economic significance of government activity, it would be highly desirable to include such investments in capital expenditure. A complicated solution for this dilemma has been worked out in the Swedish accounts where —with the main exception of the public roads—investment expenditure, regardless of its nature, is included in the capital budget, but where the non-revenue-producing portion of real investment is covered in current expenditure by immediate write-offs. This method has been adopted in the table above where depreciation on non-revenue-producing investments first appears as item 8 of current expenditure and then is transferred to the receipts side of the capital account (item 21 (*b*)). That part of depreciation which has been provided for in the current expenditure of the public undertakings (revenue-producing investments) is shown under item 21 (*a*). The latter amount is equal to the total provision for depreciation as shown in

the working or revenue accounts of the public undertakings (item 42), which have calculated their surplus of profits included in current receipts of the consolidated accounts (items 13 and 49) after inclusion of depreciation in their expenditure.

E. Other Financial Statements

Total expenditure and total receipts as given in the "Over-all financial results" have been adjusted by deduction of transfers between current and capital account, which otherwise would overstate the level of expenditure and receipts. The resulting balance is shown under item 27.

The "Consolidated cash position", in turn, should show the exact manner in which an existing positive balance has been utilized or negative balance (item 27) covered.

Table B illustrates a possible method of aggregating certain types of public undertakings. The accounts are divided into a trading section and a profit and loss section. This division has the advantage of showing separately the results of the business-type operations, without reference to the public undertakings' relation to the treasury. The profit and loss account combines the results of trading activities with the results of "financial" activities, such as interest receipts and payments and treasury contributions.

The types of account illustrated in B (I) and B (II) would be useful for public undertakings whose major activity consists of purchase and sale of commodities or of production of goods and services. These accounts are not readily adaptable to financial enterprises whose principal function is to make or guarantee loans to the private sector of the economy. For these enterprises it is necessary to develop balance sheet data showing the financial condition on both current and capital account at the beginning and end of the fiscal year. No effort has been made to develop such statements since this would require a complexity of accounts beyond the intended scope of this paper. It may be noted, however, that the fiscal year's net lending activity of the central government and its undertakings with the private sector of the economy can be derived from the entries in table A (II). Items 18 (*b*) and 18 (*c*) show total outlays on security acquisition from and loans to the private sector; items 22 (*d*) and 22 (*e*) show sales of private securities and loan repayments. The difference between these two pairs of items will show net lending activity.

In the "Public debt statement" (section C I) information is required on the amounts outstanding on a gross basis and on a net basis, i.e., after deductions of intra-governmental obligations. In principle, the changes in net public debt should be equal to net borrowings, as given in the "Consolidated cash position". Divergencies may result from debt assumptions and repudiations by national governments, such as the inclusion in the public debt of obligations assumed as a result of the negotiations settling the lend-lease accounts, the repudiations of inter-governmental debts of the First

World War, additions of accrued interest to capital outstanding, or changes in the exchange rate applied in converting the amounts outstanding in foreign currencies into their domestic currency equivalent. Commissions and discounts could be considered as another source of divergence unless expenditures for these items is included in total interest service (item 2).

The statement on the "Public debt outstanding" further provides for breakdown according to ownership. In analysing the economic effects of public borrowing it is of particular importance to indicate the changes that occurred in the relative shares of the public debt held by the central bank, the commercial banks, private persons and corporations. A comprehensive classification of the public debt on this basis is now available only for the United States.

The classification of accounts which is suggested above represents, in some respects, an elaboration of the accounts used in the public finance questionnaire which has been circulated by the Fiscal Division of the Department of Economic Affairs in co-operation with the Statistics Division of the International Monetary Fund. This questionnaire is intended to provide annual as well as monthly data from the various governments, indicative of the effect of government financial operations on the economy as a whole.

The questionnaire requires that all accounts pertaining to the central government and its various departments, offices, agencies, corporations and other units, be consolidated into one statement. However, in the case of the accounts of government enterprises primarily engaged in buying or selling goods or services, as well as of the accounts of any government banks, only the net total payments between them and the central government are included in the consolidated statement of receipts and expenditures. Results of monetary operations, such as net issues of currency, profits from depreciation of the currency or appreciation losses, are intended to be excluded from revenue and expenditure. Proceeds from loans and redemption of debt are also excluded. The net balance between receipts and expenditures thus obtained should give some rough indication of the addition to or subtraction from the total money supply resulting from the public finance transactions of the government. Further columns in the questionnaire provide for information on the changes in the cash position of the government and changes in the public debt.

The major refinement in the accounts outlined above—a refinement which goes a step beyond the public finance questionnaire—is a classification which will reveal the relation of government activities to both private income and private capital accounts. On the other hand, the accounts as outlined do not reveal all of the information needed for a system of national income accounts inasmuch as they do not distinguish the sectors to which government payments are made and the sectors from which government receipts are derived (i.e., consumers, business, international).

COUNTRY APPENDICES

INTRODUCTORY NOTE

The following appendices present the main features of the budget systems of Italy, Sweden, the United States of America and the Union of Soviet Socialist Republics.

Italy has been selected because it is an interesting example of the wide and extremely diversified character of government activities, which, however, are not fully reflected in the central government accounts. The existing difficulties in delineating the public sector from the private are subjected to special scrutiny.

Sweden has been chosen because of its exceedingly well integrated and logically consistent double budget system with a rather sophisticated use of provision for depreciation.

The United States of America has been selected because of the highly interesting inter-relationships between the social security funds and central government transactions. Moreover, the different types of organization for public undertakings and their integration with the central government budget warrant careful analysis.

The budget of the USSR has been chosen because it is the best available example of a system operating in an economy based on public ownership of the means of production. The differing economic significance of the budget in such an economy as well as the differing economic significance of the turnover tax and public undertakings profits are the most important subjects of analysis in this chapter.

Generally, an attempt has been made to analyse the various budget systems from the point of view of the problems raised in the preceding study. However, a rigid uniformity in presentation of the budget structures of each country would have limited the possibility of giving full attention to the distinctive characteristics of each particular system.

A. THE ITALIAN BUDGETARY STRUCTURE

Introduction: the public sector of the economy and the government accounts

The role of the central Government in the national economy in Italy, as in most other countries, has become of increasing importance as it has assumed wider responsibilities in the economic and social fields.

The rate of growth of the public sector in Italy was most marked in the inter-war period and particularly in the early 1930's. At this time the Government acquired from the major commercial banks their shares in industrial enterprises which had become immobilized as a result of the depression. The process continued throughout the pre-war decade as the Government, in intensifying its economic self-sufficiency programmes, increased its holdings in the quasi-nationalized industries and created new organs, with varying degrees of autonomy from the central administration, for the exploitation of natural resources and for the expansion of the heavy industry, ship-building and armament sectors.

The lack of sufficient information makes it impossible to give a comprehensive picture of government participation in the national economy. Certain data published in a report of the United States Economic Cooperation Administration[1] may serve to outline the nature of the economic activities in which the Government participates, as well as the extent of such participation.

The Government is in a position to control, directly or indirectly, the bulk of rail transport facilities and a considerable share of road transport, passenger shipping and other service industries such as telephone, telegraph and radio. It controls 23 per cent of the national power output, nearly all of the output of hard coal, two-thirds of the iron ore and mercury production and a substantial share of the production of other non-ferrous metals. All of the country's blast furnaces and about half of the steel-mill capacity are controlled by the Government. In the machinery and equipment industry, State-controlled plants comprise one-third of the productive capacity for airplane and diesel engines and for electric machinery. On the whole, State-controlled mechanical and engineering industries employ 100,000 workers and comprise one-third of the output of medium and large plants in this field.[2]

In the banking sector, State-controlled institutions administered 79 per cent of total deposits in 1945.[3] Such control is effected through official institutions, which include the so-called "public law credit institutions" (*Istituti di credito di diritto pubblico*), the savings banks (*Casse di risparmio*) and the postal savings system (*Casse postali*), or through banks (the so-called "banks of national interest") in which State ownership ranges from a minimum of 80 per cent to as high as 96 per cent.

In the social field there was a parallel growth in the Government's social security and public assistance services. In 1948 the contributions to the various social security schemes, excluding those charged to the general budget, amounted to 341 billion lire, i.e., over one-third of the total budget

[1] *European Recovery Program, Italy, Country Study* (Washington, D. C., February 1949), p. 39.

[2] The data in the above-mentioned report refer to 1948. The picture has not materially changed during the past two years.

[3] Ministero per la Costituente, *Rapporto della Commissione Economica, IV—Credito ed Assicurazione*, 1946, Parte I, p. 337.

revenue for the fiscal year 1948-49. Benefit payments totalled nearly 340 billion lire or approximately 22 per cent of budget expenditure for the same fiscal year.[4]

Government participation in the economy in the inter-war period was generally effected through the establishment of a large number of public or "quasi-public" organs, often referred to as "parastatal institutions" (*enti parastaali*). These institutions include both those conducting purely commercial activities (e.g., banks) and those performing social services (e.g., social security institutes and public assistance boards).

The "parastatal institutions", in contrast with the older public undertakings (railroads, postal services, etc.), are not subject to direct budgetary control by the central administration. Their accounts are not integrated with the general budget accounts. As a result, the structure of the Italian general budget has undergone little change since the turn of the century.

The general budget comprises the receipts and expenditure of the central government reported on a gross basis, plus the net operating results of the public undertakings entirely owned by the State and operated by "autonomous agencies" under the direct supervision of the various ministries.

With respect to the "parastatal undertakings", the general budget records only certain capital transactions, i.e., Treasury loans and advances, contributions to their endowment funds (and their repayment), as well as interest payments accruing to the Treasury from such transactions. The general budget also includes that share of the profits (in the case of commercial enterprises) which may accrue to the State, as share-holder, or in certain cases, the residuum of net profits, after provision is made for various purposes, such as "contingency reserve funds", "investment funds" (other than depreciation), special funds earmarked for the welfare activities of the institution itself, or as contributions to public welfare institutions. In the case of the social security institutes the budget records only the State's share of the contributions to the various schemes.

The necessity of consolidating, in some fashion, the accounts of the "parastatal institutions" with the general budget was recognized in a report of the Economic Committee of the Constituent Assembly in 1946.[5] Little progress appears to have been made in this direction in recent years. The Government has been faced with the far more urgent task of reorganizing its own fiscal and administrative machinery, which had been almost completely disrupted by two years of warfare on Italian territory.

The problem of consolidation of accounts had received some attention in earlier years, though the emphasis at the time was primarily on publicity. In 1939 the accounts of all government institutions were required by law

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[4] Ministero del Tesoro, *Relazione Generale sulla Situazione Economica del Paese* (Rome, January 1950), p. 87.

[5] Ministero per la Costituente, *Rapporto della Comissione Economica, V—Finanza,* 1946, Parte I, pp. 32-36.

to be presented in conjunction with the general budget.[6] In 1942, however, the law was modified to permit the various agencies to present their accounts independently of the general budget, since in most cases their accounting period did not coincide with that of the central Government.[7]

The following account of the Italian budgetary structure is devoted largely to the central government accounts. Because of the importance of the "parastatal institutions" a brief analysis of their status and of their financial relationship with the central Government has also been included.

The various topics discussed have been grouped under the following general headings:

I. Public undertakings;

II. Social security institutes;

III. Classification procedures;

IV. Methods of financial reporting.

I. *Public undertakings*

Types of public undertakings

As previously noted, there are two types of public undertakings: those wholly owned and operated by the State, and the so-called "parastatal institutions". The former, though enjoying a certain degree of autonomy as compared with the purely administrative government departments, form an integral part of the central government structure, and are operated under the direct supervision of the various ministries.

The "parastatal undertakings", on the other hand, have a separate legal status, i.e., they are "public law institutions" (*enti di diritto pubblico*), and, as such, are free from the type of budgetary controls exercised over the government departments. The "parastatal undertakings" are, however, subject to varying degrees of central government supervision, usually exercised through the appointment of high-ranking members of the various government departments to their administrative boards.

In general their original capital funds (*fondi di dotazione*) were subscribed both by the Government and/or by other public institutions having similar status, e.g., the *Cassa depositi e prestiti* (Loan and Deposit Fund), which administers such organizations as the postal savings system and the social security institutes.

Some idea of the range of activities and services performed by these institutions may be obtained by listing some of the principal ones according to their functions:

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[6] Royal Decree No. 720, 6 April 1939.
[7] Royal Decree No. 442, 30 March 1942.

(*a*) Industrial enterprises:

Azienda Carboni Italiani—ACAI—(Italian Coal Agency);

Azienda Ligniti Italiane—ALI—Italian Lignite Agency);

Azienda Minerali Metallici Italiani—AMMI—(Italian Metallic Minerals Agency).

(*b*) Financial institutions:

Banca d'Italia (the Central Bank);

Istituti di credito di diritto pubblico (comprising five major commercial banks);

Casse di risparmio (savings banks);

Casse postali (postal savings banks);

Long and medium-term credit institutions (including the *Istituto Mobiliare Italiano* and three other agencies specializing in long-term financing of industrial enterprises, public utilities and public works construction);

Istituto per la Ricostruzione Industriale—IRI—(Institute for Industrial Reconstruction).

A comprehensive account of the Italian budgetary structure should include an analysis of the relationships between the accounts of all subsidiary government institutions and the general budget as well as the complex relationships arising from inter-agency transactions. Such an account is beyond the scope of this paper. In order to illustrate certain of these relationships, however, a brief review is given below of the wholly-owned public undertakings, of the Institute for Industrial Reconstruction, as perhaps the most important of the "parastatal institutions" in the economic field, and of the social security institutes, as the most important example of "parastatal institutions" in the social field.

Wholly-owned public undertakings

The principal undertakings owned and operated by the Government are the following:

State Railways (*Amministrazione delle Ferrovie dello Stato*);

Fiscal Monopolies—tobacco, salt, matches and lighting appliances, cigarette paper (*Amministrazione dei Monopoli di Stato*);

Post and Telegraph Services (*Amministrazione delle Poste e dei Telegrafi*);

Telephone Services (*Azienda di Stato per i Servizi Telefonici*);

State Roads (*Azienda Nazionale Autonoma delle Strade Statali*).

The above institutions are organized as "autonomous agencies" or "administrations" and have separate budgets which are published as annexes to the general budget and are approved by Parliament at the same time as the latter.

The system of annexed budgets is designed to permit greater flexibility in the administration of the public enterprises by permitting them to adopt accounting methods approximating those used in commercial undertakings and by not subjecting them to the formal and more cumbersome expenditure controls imposed on the government administrative departments. It should be noted, however, that the degree of control exercised both by the legislature and by the Executive over the autonomous agencies varies considerably according to the nature of each agency as well as the historical circumstances under which it was established.

The tobacco and salt monopolies, for example, which are a major source of tax revenue,[8] are in practice administered as a department of the Ministry of the Treasury. Their operations are subject to close scrutiny by the legislature, since they affect to a considerable degree decisions with respect to the taxation of tobacco and salt, and indirectly, owing to their importance as a source of revenue, taxation policy in general.

The major part of the contribution of the tobacco and salt monopolies to the general budget is determined on the basis of a flat percentage of gross receipts and is entered in the budget accounts as tax revenue. The remainder, i.e., gross receipts less gross expenditure (including tax revenue assigned to the budget), accrues to the general budget as "net industrial profits of the fiscal monopolies".

The accounts of the public undertakings are consolidated with those of the general budget on a "net" basis, i.e., their operating surpluses appear on the receipts side of the budget as profits of public undertakings, and, correspondingly, operating deficits are recorded on the expenditure side as "contributions to meet current deficits". The general budget also shows government contributions to meet the extraordinary capital outlays of the autonomous undertakings, e.g., those arising from the repair and replacement of plant and equipment destroyed by the war. Contributions towards meeting ordinary capital outlays normally take the form of loans and advances and are recorded in a special category of the budget under the heading "movements of capital".

There are instances, however, in which government grants to the public enterprises may take an indirect form. This has been the case with the fiscal monopolies in the post-war years where the Government, by the simple expedient of lowering the proportion of gross receipts normally assigned to the general budget as tax revenue, has virtually granted the monopolies an indirect subsidy. In the draft estimates for 1949/50 this indirect subsidy was calculated at 12,650 million lire.[9]

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[8] In 1948/49 their yield amounted to nearly 19 per cent of total tax revenue as compared with 15 per cent in 1938/39. Cf. United Nations, Department of Economic Affairs, *Public Finance Information Papers, Italy*, ST/ECA/SER.A/3, June 1950, p. 25.

[9] Ministero del Tesoro, Ragioneria Generale dello Stato, *Previsione delle Entrate e delle Spese dello Stato per l'Esercizio Finanziario 1949-50* (Poligrafico dello Stato. Rome 1949), p. 19, and p. 54, footnote (*a*).

The Institute for Industrial Reconstruction

The *Istituto per la Ricostruzione Industriale*, usually referred to as the "IRI", was established in 1933 in the form of a public holding company. At the outset it had a two-fold purpose: (*a*) to take over from the major commercial banks their holdings of shares and other participations in industry which had become immobilized during the depression, and (*b*) to provide long-term financial assistance to such enterprises as had not sufficient certainty of obtaining credits on a strictly business basis. The latter function was, in the course of a subsequent reorganization, entrusted to the *Istituto Mobiliare Italiano*.

During the 1930's and the early years of the war the IRI became the major instrument in the Government's drive towards self-sufficiency in the industrial sector. By 1948 the IRI had taken over shares giving it control of 25 per cent of total electrical production in Italy, of shipping companies (16 per cent of total tonnage), of telephone companies (serving 57 per cent of the instruments in use), of iron and steel enterprises, representing 43 per cent of total production in this industry, and of the mechanical and engineering industries, ranging from 80 per cent of total production of large ships to 10 per cent of the production of motor vehicles. The IRI also has considerable interests in the mining and chemical industries and controls banking institutions administering 25 per cent of total deposits of the Italian banking system.[10]

The status of the Institute for Industrial Reconstruction was redefined under a new Statute enacted in February 1948.[11] The Statute endowed the IRI with a capital fund of 60,000 million lire, most of which has already been utilized to cover the operating deficits of the engineering and mechanical industries under its control.[12] The new law also provided for parliamentary review of the Institute's activities by requiring the publication of its accounts as annexes to the accounts of the central Government.

The Statute provided for the disposal of the net profits of the Institute as follows:

(1) 20 per cent to an ordinary reserve fund for covering future operating losses;

(2) 15 per cent for the training of technical and administrative personnel of the Institute and for establishing research laboratories in business administration;

(3) 65 per cent for repayment of the initial endowment fund and subsequent advances of the Treasury.

Upon completion of repayment of the Institute's indebtedness to the Treasury the 65 per cent of the net profits referred to under (3) above

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[10] IRI, *Relazione del Consiglio Amministrativo, Esercizio 1948* (Rome 1949), p. 11.

[11] *Statuto dell'Istituto per la Ricostruzione Industriale*, Legislative Decree No. 51, 12 February 1948, *Gazzetta Ufficiale* (21 February 1948).

[12] IRI, *Relazione del Consiglio*, loc. cit., p. 25.

accrue to an extraordinary reserve fund; the statute makes no explicit provision for the ultimate disposal of the latter. Should the Institute's net losses in any given year exceed the ordinary reserve fund the provision for covering these losses has prior claim on future profits.

The Institute also has, in common with other "parastatal institutions" (e.g., IMI) the power to borrow on the private market through the issue of securities with State guarantee.

It may be seen from the special status of the IRI *vis-à-vis* the central Government, a status which it shares, *mutatis mutandis*, with other "parastatal institutions", that the principle of the "single fund" under direct control of the central treasury has been abrogated. This makes it impossible, on the basis of the budget document alone, to determine the proportion of the national income which is transferred to the central Government in any given year, from the profits of all government enterprises and from the net accumulations of surplus liquid assets by the social security funds. Further, it is extremely difficult to trace the redistribution of "net profits" and "net accumulations" to the private sector since a considerable portion is transferred to other public institutions (by way of interest payments, dividends, contributions to welfare funds, etc.) before entering private income accounts.

II. *Social security institutes*

The social security services also fall outside the scope of the general budget. The latter includes only the government contributions to the various schemes. The social insurance services were established at different periods and grew up with separate budgeting systems and with varying degrees of autonomy from the central administration.

In general the various services, like the "parastatal" commercial undertakings, are organized as "public law institutions" with separate juridical status and administrative autonomy. In 1949 there were fifteen such institutions, some of them in the process of liquidation or amalgamation with the major ones.[13] Of these, by far the most important are the following:

(*a*) *Istituto Nazionale della Previdenza Sociale* (National Social Insurance Institute);

(*b*) *Istituto Nazionale per l'Assicurazione Malattie* (National Institute for Insurance against Sickness);

(*c*) *Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro* (National Institute for Insurance against Employment Injuries).

The National Social Insurance Institute administers old age, invalidity, survivors', unemployment and tuberculosis insurance schemes covering nearly all salaried employees, as well as certain categories of self-employed. The personnel of central and local public authorities, including the autonomous

[13] *Annuario di Statistiche del Lavoro*, 1949 (Rassegna di Statistiche del Lavoro: Rome 1949), p. 261.

agencies, and certain special categories of employees in the private sector (e.g., commercial agents, workers in the amusement industries, etc.), have special insurance funds of their own. Certain of the insurance funds for public employees are administered directly by the Ministry of the Treasury.

In addition to social insurance services proper, the National Social Insurance Institute also administers, on behalf of the Government, certain public assistance services, i.e., services for which no direct contribution is paid by the beneficiaries to the State. The most important of these are family allowances and allowances for dependants of persons performing compulsory military services.

The social insurance services are financed principally by employers' contributions, and to a minor extent, by State contributions.[14] Government contributions are on a permanent basis only with respect to old age, invalidity and survivors' insurance. Contributions towards unemployment insurance are established by special laws and apply only to extraordinary benefits to the unemployed voted by Parliament as the need arises. Both the permanent contributions and the emergency unemployment contributions are entered in the budget accounts of the Ministry of Labour and Social Insurance.

The latter Ministry, as well as the Ministry of the Treasury, is charged with the general supervision of the activities of the Social Insurance Funds. Such supervision includes the submission of the social insurance accounts to both Ministries; however, they are not bound to present these accounts to Parliament as is the case for the accounts of the public enterprises previously discussed.

It is to be noted that the autonomy of the social insurance institutes is limited to the administration of the funds at their disposal. Policy decisions, i.e., decisions affecting contributions and benefit rates, are made by Executive Decree, the initiative resting with the Ministry of Labour and Social Insurance subject to the approval of the Ministry of the Treasury. Since social security contributions are in most instances more in the nature of taxes rather than insurance premiums, it has been asserted that under the present system the taxing power of Parliament is circumvented. Consequently, it has been suggested by public finance specialists that the budgets of the social insurance institutes be submitted to Parliament as annexes to the general budget.[15] Additional justification for this lies in the growing importance of social insurance funds as a source of government finance and as an additional instrument of fiscal policy, whose effectiveness depends on the degree to which it is co-ordinated with general budgetary policy.

The major difficulties involved in the presentation of the social security accounts to show meaningful relationships between their transactions and those of the central Government arise primarily from the existence of many

[14] In 1948 government contributions to all services amounted to less than 6 per cent of the total; cf. Ministero del Tesoro, *Relazione Generale*, op. cit., p. 87.

[15] Cf. G. Petrilli, "Le Statut financier des assurances sociales en Italie", *Public Finance*, vol. V, no. 3, Amsterdam, 1950.

authorities administering the various services with different degrees of financial autonomy, and from the fact that their accounting periods do not coincide with that of the central Government.

At present the Government is considering the adoption of a plan which was prepared by a special Government Commission in 1948 for the gradual unification and improvement of the social security services. It is to be noted that the new plan does not envision the integration of the social security accounts with those of the general budget nor their presentation as annexes to the latter for review by the legislative bodies.[16] A step in this direction was taken in January 1950 when the Minister of the Treasury, in a general report on the economic situation of the country accompanying the budget estimates for 1950/51,[17] published, for the first time in the post-war period, comprehensive information on the activities of the social insurance institutes. Such information, however, was confined to a statistical summary of the contributions collected and benefit payments effected in 1948, and provisional results for 1949, showing at the same time the over-all contributions from the general budget to the various social security services. No estimates were given for 1950 nor were the data presented in such a form as to show the relationships of the financial activities of social insurance institutes with those of the central administration, and with those of the "parastatal undertakings". It may be noted in this connexion that the social insurance institutes are, together with the postal savings system and the savings banks, the major holders of government debt and of the share capital of most of the "parastatal undertakings".

III. *Classification procedures*

Structure of the budget document

The Italian budget, under its present structure, is intended primarily to serve as an instrument for legislative and executive control over the collection and disbursement of public funds. The primary basis of budgetary organization is the administrative unit, in this case, the Ministry. The emphasis on the administrative unit as the basis of organization is related to the fact that, at least from the legal point of view, the budget is not a single entity. The Italian budget is composed of the expenditure budgets of the various ministries, each approved by Parliament in a separate law. Parliamentary discussion and review of the budget as a whole, however, is provided by the presentation of the expenditure budget of the Ministry of the Treasury which also includes revenue estimates. The Minister of the Treasury presents at the same time a "preliminary note" which includes an analysis of the over-all budget estimates as compared with those of the previous year, as well as summary tables showing over-all expenditure classified by nature or purpose, rather than by ministries.

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[16] Cf. G. Petrilli, op. cit., p. 407.
[17] Document cited in footnote (4), p. 53.

Parliamentary approval of the over-all budget estimates, as presented in the budget of the Minister of the Treasury, by implication constitutes approval of the expenditure budgets of all the ministries. The requirement that each of these be in turn approved by a separate law is a legal formality designed to ensure greater parliamentary control over the expenditure of the various ministries; separate approval does not imply the existence of separate budgets with independent sources of income.

The voted budget is not normally published as a single document. It appears in the "Official Gazette" (*Gazzetta Ufficiale*) in the form of special laws as the various ministerial budgets are approved. Over-all summaries of the budget are published periodically in the monthly Treasury Summary Accounts (*Conti Riassuntivi del Tesoro*); these show the original voted estimates and the revised estimates on the basis of supplemental parliamentary appropriations or budget amendments effected, within the statutory limits, by the Ministry of the Treasury.

The expenditure budgets of the various ministries also include the "annexed budgets" of the autonomous undertakings under their supervision.

Classification of receipts and expenditure: main categories

Receipts and expenditure of the Italian general budget are classified under two broad "titles": "ordinary" and "extraordinary". Both titles are in turn subdivided in two "categories": "effective receipts and expenditure" (*entrate e spese effettive*) and "movements of capital" (*entrate e spese per movimento di capitali*). The latter category appears only as a sub-classification of "extraordinary receipts and expenditure".

The distinction between "ordinary" and "extraordinary" receipts and expenditure is admittedly not clear-cut, depending ultimately on the judgment of the classifying authorities as to whether the receipts and expenditure in question are to continue indefinitely in the future.[18] The guiding principle in this case is to classify as "ordinary" receipts originating from permanent sources of revenue, and expenditure arising from the "normal" activities of the central Government; and as "extraordinary" all other receipts and expenditure.

Examples of the latter type of classification over the past decade may serve to illustrate the distinction in practice. "Extraordinary expenditure" has included all the exceptional charges arising from the war, such as general reconstruction, grants to State enterprises and local authorities to meet current deficits and to repair war damages, emergency relief and assistance, veterans' allowances and war pensions, compensation for war damages, price subsidies for certain basic food products, etc.

"Extraordinary receipts", on the other hand, consist largely of the proceeds of war and post-war emergency taxes, such as the war excess-profits tax, the capital levies, the tax on profits derived from political activity

[18] Cf. *Rapporto della Commissione Economica, V Finanza*, op. cit., p. 44.

under the fascist régime, etc. They also include such part of the local currency counterpart proceeds of foreign aid (United States Interim Aid and ERP) as have been assigned to the general budget.

The distinction between "effective receipts and expenditure" and "movements of capital" is somewhat more clear-cut. "Effective receipts and expenditure" are defined as those which result in an increase or decrease in the State's "net assets". "Movements of capital" are those items of receipts and expenditure which merely record a change in the composition of the State's assets and liabilities and produce no effect on its net capital position.

It is to be noted that the term "State assets" as used in this connotation has a very restricted meaning. In practice it includes only certain revenue-yielding property under the direct administration of the central Government but not the revenue-yielding assets of the public undertakings (the State Railways, Post Office, etc.). "State assets" further includes as "Treasury assets" claims on the assets of the public undertakings, the "parastatal institutions", local authorities and private enterprises, arising from Treasury loans and advances or recoverable contributions to their capital funds.

An example may serve to clarify this particular concept of "State assets". If the Government makes an outright grant to a public undertaking (e.g.. the State Railways) to meet the latter's capital outlays, it will be recorded as "effective expenditure" even though such expenditure clearly results in an increase in revenue-yielding assets. If a contribution for similar purposes takes the form of a repayable loan or advance it will be entered as an "expenditure" under "movements of capital". Such an "expenditure" results in an increase in the State's revenue-yielding assets, in this case, interest-bearing loans or advances. Therefore, the category "movement of capital" is not intended to identify all expenditure on "revenue-yielding assets"

It is interesting to note in this connexion that a far broader concept of the term "State asset" is adopted in the so-called "patrimonial accounts". in which an attempt is made to measure the over-all effect of budgetary and extra-budgetary (Treasury) transactions on the State's "net assets". In this case the "State's assets" include not only revenue-yielding assets under direct control of the central administration, but also the fixed assets of the State enterprises, government participations in the "parastatal institutions" (not their real assets) and in private enterprises. It also includes assets of a non-revenue-yielding nature such as military equipment, government buildings and office equipment, and artistic and scientific property, but does not include assets whose value cannot be readily assessed, such as roads.

The latter concept of "State assets" is merely intended as an accounting device to ensure proper control over the administration of State property by the various departments, and not to measure the "financial soundness" of budgetary operations.

The procedure by which budgetary and extra-budgetary transactions are reconciled with changes in the State balance-sheet is exceedingly complicated and its details need not be examined here. As far as the budget operations are concerned, the procedure consists essentially in separating all items of receipts and expenditure (in addition to those recorded under "movements of capital") which produce no net change in the State's assets as defined by the broader concept of the over-all "State balance sheet"; and in showing them, in a special reconciliation schedule, as changes in the value of the component items. In the example given above, a contribution to a State enterprise for capital outlays, previously classified as "effective expenditure", will now be entered in the patrimonial accounts as a self-offsetting item.

The elimination of all such "self-offsetting" receipts and expenditure from the budget leaves what are defined as "effective receipts and expenditure proper", i.e., those which result in an actual increase or decrease in the value of the State's "net assets" under the broader definition. The difference between the "effective receipts" and "effective expenditure" as now defined is said to measure the change in the State's "net assets" resulting from budgetary transactions. This change may be reflected in the State's balance-sheet either as a change in the cash balance or as a change in State indebtedness.

It is evident from the foregoing that this measure of the effect of budgetary transactions on the State's "net assets" is to be taken merely as an accounting entity, having no economic significance in and of itself.[19] This is due to the fact that the definition and the valuation of the State's assets are necessarily arbitrary.

The discussion of the Italian concepts of "State assets" at this stage may appear somewhat in the nature of a digression. However, an examination of these concepts will help to clarify the nature of the distinction between "effective receipts and expenditure" and "movements of capital".

In addition to the items mentioned above (purchase and sale of revenue-yielding property, loans and advances, and capital contributions and their repayment), "movements of capital" include, as other major items, proceeds from the issue of long- and medium-term bonds and their repayment, and issue and retirement of currency. This last item is of relatively minor importance; it includes only bills of very small denominations forming an insignificant part of the currency in circulation.

Classification of receipts

"Ordinary receipts" are classified by source into seven major groups: (1) income from State property; (2) net profits of public undertakings; (3) taxes; (4) income from minor public services; (5) reimbursements and repayments; (6) special receipts and contributions; (7) various receipts.

[19] Cf. Arnaldo Marcantonio, *L'Azienda dello Stato* (A. Giuffré: Milan, 1950), pp. 369-371.

The first group includes all income derived from the "public domain", in the form of rent, fees, charges, and proceeds from the sale of the products or services of the so-called "patrimonial agencies", canals, mineral water establishments and mines. The second group has already been examined in a previous section. Taxes are in turn subdivided into the following headings: direct taxes (including income and property taxes), indirect taxes on transactions, customs duties and indirect taxes on consumption, monopolies, and lottery receipts.

The distinction between "direct taxes" and the remaining sources of tax revenue which may, broadly speaking, be considered as "indirect taxes" is purely administrative and not necessarily based on economic criteria. The classification is detailed enough, however, for the economic analyst to make the necessary adjustments. In practice only the first group of "indirect taxes" i.e., "taxes on transactions", includes what for most analytic purposes may be classified as direct taxes, i.e., gift and succession duties and certain stamp taxes on the transfer of property.

As noted in the discussion of the public undertakings revenue from the fiscal monopolies (salt and tobacco) is recorded under two separate headings in the budget accounts. Part of it, by far the greater, is determined on the basis of a flat percentage of gross sales receipts and accrues to the budget as "tax revenue". The other part is recorded as "net profits" of the monopolies; it represents the residuum of gross receipts after provision is made for their operating expenses, including tax revenue assigned to the budget. This distinction is purely administrative and, for most purposes, it would seem appropriate to consider both items as taxes.

Lottery receipts are regarded as indirect taxes on consumption similar to other taxes on amusements. They are shown on a gross basis in the budget; the corresponding payments appear in the budget of the Ministry of Finance.

This Ministry, which is charged with the collection of revenue, also publishes, usually as annexes to the budget addresses of the Finance Minister,[20] historical data on tax revenues on a somewhat more systematic basis than appears in the budget accounts. The addresses also include from time to time supplementary tables showing tax revenue classified on an economic basis.

The fourth group of receipts, "income from minor public services", includes principally educational fees, fines and other administrative receipts. "Reimbursements" includes contributions by the various State enterprises and agencies or by private citizens covering in whole or in part certain expenditures incurred on their behalf by the central administration.

"Special receipts and contributions" comprise principally the State's share in the profits of the "parastatal undertakings" and certain so-called "special

[20] Cf. Ministro delle Finanze, *Discorsi pronunciati al Senato ed alla Camera dei Deputati*, 31 May and 5 June 1949.

contributions". These are in the nature of taxes and are usually collected as surcharges (*addizionali*) on the regular income-tax assessments, earmarked for special purposes (social welfare, public assistance, etc.).

"Various receipts" includes a wide variety of items, ranging from the proceeds of sale of relatively minor monopoly products, such as saccharine, to recoveries of credits extended to government officials and accounting agents and proceeds of sale of discarded equipment.

The classification of "extraordinary receipts" follows no clear-cut pattern, although an attempt is made to group them as far as possible under the same headings as "ordinary receipts". The major items that have appeared in recent budgets in this category have been indicated in the previous section.

Classification of expenditure

The summary statements contained in the introductory note to the budget show expenditure classified by ministries and by function. Supplementary schedules of expenditure by ministries also show a breakdown into "personnel charges" and "service charges". The latter include the purchase of material and of services of private persons.

The classification by function applies only to "effective expenditure". This classification indicates the purpose to be served, and, in certain of the sub-headings the groups to be benefited and the nature of the recipient of the expenditure. Before the war sixteen major functions were normally indicated, such as general services of the State, military expenditure, public debt interest, construction of railroads, education, etc. During the war one of these major groups, under the heading "exceptional expenditure", became by far the largest item and included all expenditure related to the war effort. In the post-war period this item has included a wide variety of expenditures for reconstruction and rehabilitation programmes and for charges arising under the Peace Treaty.

In addition to the summary statements contained in the budget document proper, special tables are from time to time published in the parliamentary addresses of the Minister of the Treasury. The classification used in these tables is in general similar to that used in the budget statements. An attempt has been made in recent years to show separately in these tables all expenditure for investment purposes, or contributions to the "economic potential of the country" (*spese per l'incremento economico del paese*). Such expenditure is usually shown under the heading "charges of a productive nature" (*oneri di carattere produttivo*) and includes, for the most part, public works outlays, railroad construction and the services of the various economic ministries (Agriculture, Transport and Communications, Foreign Trade, etc.).

A major structural reform of the budget was under consideration in 1949, which was intended, among other things, to group all capital expenditure into an investment budget. The reform was not carried out. The only change effected in the subsequent budget (1949/50) was the introduction of a sep-

arate "statement of investments", which was limited to capital expenditure to be covered by ERP counterpart funds.

The details of expenditure shown in the individual ministry budgets are sufficiently specific with respect to nature or purpose, groups benefited and types of recipients as to permit broader classifications for most analytical purposes. However, considerable difficulty arises in analysing expenditures from the classification of certain items of the "movements of capital" category; namely, the loans, credits or advances, and contributions to the capital funds of such recipients as State enterprises and local authorities. From the point of view of the Treasury these represent "financial investments" and are classified as self-offsetting items in the sense indicated above. Neither the summary nor the detailed budget statements, however, indicate with a sufficient degree of specification the purpose for which the loans are granted. Consequently, it is frequently impossible to determine, on the basis of the budget document alone, whether these loans are utilized by the recipients for investment purposes or for covering their current operating expenses.

IV. *Methods of financial reporting*

Basis of reporting

The Italian budget is not on a cash basis, rather it is presented as a *bilancio di competenza,* i.e., a budget of "assessed revenue and obligated expenditure" (commitments). The budget records the revenue which is expected to be assessed and the expenditure which is intended to be committed during the financial year. The financial year covers the period from 1 July to 30 June.

A cash budget is, however, prepared by the Ministry of the Treasury. This is a purely administrative document and is intended for internal use only. It indicates the cash requirements needed to cover expenditure committed during the current year as well as the unpaid commitments of previous financial years. On the receipts side it shows the estimates of collections to be effected on the basis of assessments of the current year, as well as the uncollected assessments of previous years.

The closed accounts

In accordance with the two "budgets" referred to in the previous section, there are two types of closed accounts: (*a*) the budget account (*conto della competenza*), which records the receipts assessed and expenditure committed during the financial year; and (*b*) the cash account (*conto di cassa*) which records cash collections and cash payments in respect of both the current and previous financial years.

The cash account is kept open for an additional month after the close of the financial year, i.e., expenditure committed or revenue assessed by 30 June can be respectively paid or collected until 31 July, after which date these items are applied to the arrears of the year in question.

The linkage between the budget account and the cash account is effected through a third type of account, i.e., the "account of arrears" (*conto dei residui*). The latter shows under the headings of "arrears of receipts" (*residui attivi*) and "arrears of expenditure" (*residui passivi*) the receipts not collected and obligations not paid in respect of previous financial years.

Normally all three accounts are published side by side in the same schedules in the "General State Account" (*Rendiconto Generale dello Stato*), with intervening columns showing their close inter-relationships. In this manner the reader may get a systematic picture of the various stages of the execution of the budget. The "General Account", however, has not been published since the fiscal year 1941/42. The Government is in the process of integrating the accounts of the three administrations (civil and military) which had jurisdiction over various parts of Italian territory during the war and immediate post-war period.

The "budget accounts" and the "cash accounts" have, however, been published regularly since 1945/46, in very condensed form, in the monthly Summary Accounts of the Treasury.

Public debt statement

The public debt statement is also published in the monthly Treasury Summary Accounts. It includes two major categories of debt: (*a*) the so-called "patrimonial debts" consisting mainly of redeemable long- and medium-term obligations, and, of relatively minor significance, irredeemable obligations, and notes of very small denominations, issued by the Treasury rather than by the Central Bank; (*b*) the "floating debt", consisting of Treasury bills, advances by the Central Bank and various interest-bearing current accounts held with the Treasury by the social security institutes, the postal savings system and certain banks.

The status of the foreign debt, at present consisting mainly of dollar obligations, has not yet been brought up to date from the pre-war period, pending adjustments that have been taking place since 1947 as a result of an agreement with the United States Government.

The public debt statement reflects only the Treasury's cash credit transactions on budget account. It does not show indebtedness arising from budgetary operations for which the Treasury itself has not yet assumed the burden of immediate payment. The major items of such indebtedness are the unpaid budget commitments, i.e., the so-called *residui passivi* referred to above.

The debt statement does not show government-guaranteed obligations, such as are incurred by certain of the "parastatal credit institutions", as well as certain foreign guaranteed debt (e.g. Export-Import Bank credits).

Major sources of data on Italian government finances:

Gazzetta Ufficiale (special issues containing the voted budgets of the ministries and the summary statements of the Minister of the Treasury);

Ministero del Tesoro, *Previsione delle Entrate e delle Spese dello Stato* (Draft estimates—annual);

Rendiconto Generale dell' Amministrazione dello Stato (Closed accounts—annual);
Relazione della Corte dei Conti sul Rendiconto Generale dello Stato (Report of the Court of Accounts—annual);
Ministero del Tesoro, *Conto Riassuntivo del Tesoro* (monthly supplement of the *Gazzetta Ufficiale*);
Ministero del Tesoro, *Relazione Generale sulla Situazione Economica del Paese* (Minister of the Treasury, Annual Economic Report, first published in 1950);
Budget addresses of the Minister of the Treasury and of the Minister of Finance (annual);
Istituto Centrale di Statistica, *Annuario Statistico Italiano* (annual);
Istituto Centrale di Statistica, *Bollettino Mensile di Statistica* (monthly);
Banca d'Italia, *Adunanza Generale dei Partecipanti* (annual report);
Banca d'Italia, *Bollettino del Servizio Studi Economici* (monthly).

B. Budget System of Sweden

Introduction

The structure of the Swedish budget has been greatly influenced by concepts of "financial soundness"[1] which came to the forefront in that country in the 1930's. In terms of these concepts financial soundness of the transactions of the Government is to be measured by the change in the State's net assets which result from these transactions. The State's net assets are not changed by expenditures financed by borrowings when the proceeds of the borrowing are used to finance an increase in assets. According to the traditional requirements of Swedish budgetary practice only assets which are profitable, i.e., revenue producing in the financial sense, are properly included in the State's balance sheet.

The State's net assets are changed only by the difference between those expenditures which do not lead to an increase in the assets of the State and those receipts which do not result from a diminution of assets.

From this application of the concept of financial soundness follows the sharp distinction in the Swedish budget between current expenditure and receipts and capital expenditure and receipts. In this system the change in the State's net assets is therefore equal to the balance of the transactions on current account, which is defined as the budgetary surplus or deficit proper.

At the beginning of the 1930's it was still the aim of the Swedish budgetary practice to arrive at an annual balance between receipts and expenditure on current account. Borrowings were permissible only for productive purposes, such as for the creation of revenue-producing undertakings, where the profits would be sufficient to cover interest as well as amortization charges on the capital loaned to these undertakings.

The principle of borrowing for productive purposes was—with some modification—maintained in the present Swedish budget, adopted in 1937

[1] See Gunnar Myrdal, *Finanspolitikens Ekonomiska Verkingar*, 1934, and Erik Lindahl, *Studies in the Theory of Money and Capital*, 1939.

and in operation since the financial year 1938/39. The principal innovation of 1937 budget reform was the abandonment of the idea of annual budget balancing and the introduction of a method of balancing the budget over the business cycle. Thus the current budget could be underbalanced during a depression, if a corresponding overbalance was achieved during the boom period. While counter-cyclical budgeting introduced an element of flexibility into the fiscal policy of the Government, the concept of "financial soundness", measured by the changes in the capital position of the State, has been retained.

However, during and after the war, these concepts of budget balancing underwent a substantial change in Sweden. The effect of the financial transactions of the Government on the capital position of the State had become secondary in importance to the effect of State finances on general economic trends.[2]

In accordance with this point of view major attention is no longer focused on the deficit or surplus on current account, but on the effects of *all* financial transactions, including current and capital transactions, on the economy as a whole. This view is expressed in an official summary of the history of the Swedish budgetary system since 1911 by the Office of the Accountant-General which takes the position "that the question of the balancing of the working budget over the long range must be examined from a broader viewpoint than that which inspired the 1937 budget reform".[3]

However, these new principles are not yet reflected in changes in the present budgetary structure, but have so far been applied only to certain supplementary statements on public finance developments, contained in the annual reports of the *Konjunkturinstitutet.*

In the description below a detailed account of the Swedish budgetary system as adopted in 1937 will, therefore, be given, supplemented with an account of the new approach to public finance.

Scope and structure

The Swedish budget represents a consolidation of the transactions of the central Government with the transactions of most of its funds and undertakings except for the social insurance funds. It further consolidates the so-called general budget with the special budgets. In the general budget all revenue, not earmarked for any specific purpose, is shown together with expenditure, not financed from special funds. In the special budgets earmarked revenue together with the corresponding expenditure headings is shown. The latter have decreased very much in number and importance during recent years; the last remaining special budget of any significance is for public road construction, which shows how the proceeds from the automobile taxes have been utilized for this purpose.

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[2] Konjunkturinstitutet, *Konjunkturläget, Hösten 1949,* p. 150.

[3] *Riksräkenskapsverkets Årsbok, 1948,* p. 32.

The budget reports current expenditure and receipts of the central Government on a gross basis and the results of the current transactions of the public undertakings and funds on a net basis. Capital outlays are included on a net basis, since only that part of capital expenditure, which is to be financed by borrowings, appears in the budget statement.

All trading, production and banking activities are clearly separated from purely administrative activities. Government organizations engaged in such commercial activities are set up as independent entities with separate budgets consisting of operating and capital accounts.

The budget is subdivided into two independent parts, the current and capital account, with the line of demarcation between the two accounts drawn according to principles indicated in the introductory statement.

In the following, a brief account of the Swedish budgetary system will be presented in the order indicated below:

1. The current budget:
   (a) Expenditures;
   (b) Receipts, including a description of the accounts of the public undertakings and funds;
   (c) The Budget Equalization Fund.
2. The capital budget.
3. Reporting basis: cash and accrual.
4. The National Debt Office.
5. The public debt statement.
6. Reconciliation of cash accounts with the changes in the public debt.
7. Budgetary classification for purposes of economic analysis.

1. *The current budget*

(*a*) *Expenditure side of the current budget*

(1) Expenditures are subdivided into two main groups: (*a*) expenditures proper and (*b*) expenditures for capital funds.

(*a*) The first group is composed of fourteen headings, which correspond to the organization unit responsible for the activities. These activities comprise the traditional administrative functions performed by the Government as well as economic transfer payments and certain real investments. The total level of expenditures of the various ministries is also affected by the inclusion in expenditures of rentals which the State building funds charge to government agencies occupying public buildings. The level of expenditure is likewise raised by the inclusion of payments to the post office fund for handling of official mail.

On the basis of the above classification, it is not possible, without detailed investigation, to separate expenditure on goods and services for current

consumption from expenditure on capital formation and from economic transfer payments. Furthermore, not all the expenditures shown represent actual payments to the public; some are transfers to various funds, as in the case of the social insurance system and certain types of pension funds.

The most important items of *real investment* included in current expenditure are outlays for construction and maintenance of public roads, which are shown under the heading "Ministry of Communications", together with other expenditures of this Ministry. In accordance with the concept of "financial soundness", outlays for roads are not considered productive in the financial sense, and are classified as "current expenditures". The roads therefore do not appear as an asset on the balance sheet of the State. However, this type of expenditure is listed in a special budget in which total road expenditure is offset by receipts from the motor vehicle tax.

Economic transfer payments are shown under several headings. Those concerned with social security, such as old-age pensions and unemployment and health insurance, appear under the heading of the Ministry of Social Welfare. They represent, in part, actual benefits paid out and, in part, the Government's contribution to the insurance funds, e.g., the unemployment and sickness insurance funds. The Swedish accounts do not consolidate the transactions of these funds with the transactions of the central Government. In order to arrive at such a consolidation, it would be necessary to include in receipts the premiums directly collected by the funds and to add to expenditure the actual benefits paid out, while excluding the transfers from the Treasury to these funds.

Under the heading "pensions" are shown actual pension payments to government employees, as well as government contributions to State-subsidized pension funds.

Price subsidies appear under the headings of the Ministry of Agriculture and the Ministry of Food. There are six different items, viz.: relief to agriculture, food subsidies, Swedish Grain Corporation (*Spanmålaktiebolag*), milling subsidies, price subsidies on food and subsidies on imported products.

(*b*) The second main group—expenditure on State capital funds—is subdivided into the following headings: civil aviation fund, national debt fund, depreciation of new capital investment, and appropriations for covering capital losses. The deficit of the civil aviation fund, which is organized as a business enterprise fund, is shown under the first heading. If the civil aviation fund registered a profit on its current transactions, the entry for this amount would be transferred to the receipts side of the current account. The heading "national debt fund" shows total expenditure on interest on the public debt, less certain small earnings of the National Debt Office. The budget is organized in such a way that there is no direct provision for amortization of the public debt. This question will be discussed in the section dealing with the management of the public debt.

The heading "depreciation of new capital investment" lists a number of appropriations referring to the various State capital funds. These entries

correspond to the investment appropriations in the capital budget. Since, in principle, borrowings are permissible for revenue-producing investments only, the "unproductive" part of new investments is written off on the expenditure side of the current budget. The "revenue-producing" portion is shown in capital account. Calculation of the proportion of the unproductive part of the investments is based on a comparison between the estimated yield to be derived from the anticipated investment and the prevailing rate of interest, at present 4 per cent. To the extent that anticipated profits fall below 4 per cent of the planned investment, a corresponding proportion of the capital outlay is charged to current expenditure in the form of write-offs.

This procedure is fairly simple to follow for investment in such physical assets as plant and equipment. The procedure becomes more complicated for the State's loan activities. For social and economic reasons, the Government may decide to lend money at interest rates lower than cost. In accordance with the above-described procedure, a certain portion of the investment is written off in current expenditure. However, when the loans are repaid, a capital gain is recorded in the capital budget.

The second type of provision for depreciation—the appropriations to cover capital losses—include the writing off of capital assets which have already been entered on the balance sheet, but which later prove to be unremunerative. Under this heading, write-offs have been covered of certain investments in plants necessitated by Sweden's defence requirements during the last war, as well as certain post-war loans granted to foreign governments.

In addition to these write-offs directly accounted for in the working budget of the central Government, there are provisions for annual depreciation to provide for replacement of worn-out equipment. These are included in the operating accounts of the State capital funds (State enterprises and other funds). These depreciation allowances reduce the total level of current receipts since the profits of the State capital funds, which are transferred to the Treasury, are calculated net of depreciation.

(2) In addition to the expenditure classification utilized in the official budget documents, there are alternate classifications published in the yearbook of the Accountant-General and in the reports of the *Konjunkturinstitutet.*

In the yearbook of the Accountant-General, expenditure classifications are shown according to their nature and purpose; thus, total expenditure is subdivided into outlays for salaries (including pensions), general expenses, including estimated cost of rentals, and subsidies, with additional breakdowns of expenditures for State and non-State purposes (subsidies). In other tables, the distribution of expenditure by function is given, such as government and general administration, defence, social insurance and workers' protection, health, poor relief, communications, education, cultural purposes, churches, industrial development and supplies, depreciation and interest on the public

debt. This functional classification includes nineteen separate headings, as well as the distribution of expenditure according to civil purposes, defence purposes, and interest on the public debt. There are additional sub-classifications of expenditure for civil purposes.

However, the above-mentioned classifications do not easily meet the classification requirements of economic analysis. These are provided more adequately in the tables contained in the public finance chapter of the annual economic surveys of the *Konjunkturinstitutet.* These tables will be discussed in the section following the description of the Swedish budgetary system.

(*b*) *Receipts side of the current budget*

(1) Receipts, like expenditures, are subdivided into two main groups: (*a*) revenue proper, and (*b*) revenue from State capital funds.

(*a*) The first group comprises receipts from taxation, old age pension contributions, fees and other administrative receipts, and other revenue. It excludes receipts from sales of assets, as well as repayment of investments, both of which are accounted for in the capital budget.

Taxation receipts are shown in sufficient detail to permit a grouping of the various types of taxes. The budget statements show the following group:

(i) Income, property and business taxes;

(ii) Motor vehicle tax earmarked for public roads (see following section);

(iii) Customs and excises.

(2) The heading "Income from State capital funds" shows the surplus on current account of these funds. The surpluses of the capital funds relating to public undertakings (post office, telephone and telegraph services, State railways, hydroelectric power and canals, State domains), are listed first, followed by separate listings of the net receipts from the general real estate fund, defence real estate fund, State loan funds, loan aid fund, State-owned shares and various other capital funds. The profits of these capital funds are calculated in accordance with principles of commercial accounting. For the public undertakings, this type of accounting does not pose problems of particular difficulty. The operating expenses of these undertakings, including provision for depreciation of equipment, are charged against operating receipts. Charges are made for services performed by these State undertaking funds to other government agencies. These appear on the receipts side of the current budgets of these capital funds as well as on the expenditure side of the central government budget listed with the government service concerned. These payments lead to an increase in the profits of the public undertakings which is reflected on the receipts side of the central government working budget, with a corresponding increase in current expenditure in this budget.

Calculation of the profits of the capital funds not connected with public undertakings is a more complex matter. The methods used in accounting for the activities of the General Real Estate Fund established in 1935/36, are of special interest in this connexion.[4]

The current or operating account of this Fund is set up as follows:

Expenditure	*Receipts*
1. Repair and maintenance of buildings belonging to the Fund.	1. Rentals for premises occupied by government agencies.
2. Depreciation allowances.	2. Rentals for premises occupied by private individuals.
3. Rentals for private buildings and land used by the State.	
4. Profit.	3. Miscellaneous receipts.

In the early days of the Fund the rentals paid by government agencies were based on estimates of the rent the State would have had to pay if the buildings occupied had belonged to private individuals. Current practice is to calculate the rent at 4 per cent of the value of the property. There is, of course, an arbitrary element in such calculations, since any administrative change in the calculated level of the rent would result in lowering or raising the book profits of the Fund.

Calculation of the annual depreciation allowances should be mentioned in this connexion. At the time the Fund was created, it was permissible to construct only revenue-producing buildings out of loan funds. For such investments, an annual rate of depreciation of 1½ per cent was established. With the inclusion in the Fund of the value of buildings which are not revenue-producing in the financial sense, or only partially revenue-producing, provision was made to cover at least part of their construction costs in the current budget of the central Government. As a general rule, depreciation allowances provide for an amortization period of sixty years. However, for certain types of buildings, such as schools, prisons, hospitals, an amortization period of forty years has been established.

In the case of the sixty-year depreciation period, there is an immediate write-off of 25 per cent of the total investment and in the case of the forty-year period, there is a write-off of 50 per cent. This expenditure appears under the heading "depreciation of new investment" in the current budget. The percentage of normal depreciation included in the operating accounts of the capital funds has been fixed, for both types of real investment, at 1¼ per cent per annum.

The Defence Real Estate Fund set up in 1940/41 to account for properties utilized by the armed services, operates on accounting principles similar to those of the General Real Estate Fund.

[4] For a more detailed description of the development of the accounting system applied to the Swedish General Real Estate Fund, see *Preliminary Draft Proposals for Budgetary Reform,* submitted by the Chairman of the United Nations Technical Assistance Mission to Ecuador, annex X.

(c) *The balancing of the budget and the Budget Equalization Fund*

The budget reform of 1937 introduced an important innovation in Swedish budgetary practice. While formerly the working budget, or its equivalent, the tax budget, was expected to be balanced in each year, under the present system total current expenditure is not necessarily matched annually by an equal amount of revenue. The difference between expenditure and revenue, indicated as the over- or under-balance of the current budget, is transferred to the so-called Budget Equalization Fund. The Fund is a bookkeeping device which can show a negative as well as a positive balance and which serves to indicate the cumulative changes that have occurred during a period of years in the capital position of the State.

The changes in the accumulated balances of the Fund reflect not only the cash results of the current budget but also the changes that occurred during the financial year in the unspent balances of reserved budget appropriations. A discussion of the system of the various types of appropriations existing in the Swedish budget would go beyond the scope of this note. It should, however, be noted that, in order to arrive at the cumulative cash results of the current accounts, the unspent balance of appropriations must be deducted from the total balance recorded by the Budget Equalization Fund.

The basic concept underlying the establishment of the Budget Equalization Fund was that in the course of the economic cycle, the accumulated under-balances of depression years would be offset by over-balances in prosperity years. However, shortly after the new system was put into effect, the Swedish defence requirements produced a consistent and substantial under-balancing of the current budget, a contingency which was not foreseen at the time of the adoption of the scheme. It seems very unlikely that the surpluses of the post-war period will be sufficient, in the foreseeable future, to wipe out the accumulated deficits. Nevertheless, the Fund has served as an efficient device in measuring accurately and rapidly the changes which have occurred in the State's capital position.

2. *The capital budget*

The investment activities of the State are represented by the transactions on capital account of the State capital funds, as shown in a consolidated form in the capital budget. Investment activities are listed on a net basis, i.e., only that part of expenditure which is financed by borrowings is shown in the budget.

The expenditure headings start with the investment outlays for State undertakings, followed by those of the Real Estate Funds, Advances to the Treasury Fund, etc. These headings correspond almost exactly to the headings shown in the sections on State capital funds for the expenditure and receipts sides of the working budget. The purposes of the funds listed above have been discussed in the preceding sections of this paper, with the exception of the Advances to the Treasury Fund. This Fund acquired considerable importance during the war years when its investments consisted mainly of

purchases of goods on behalf of the Government, storage of agricultural products and other purchases to assure adequate supplies.

The present structure of the capital budget was adopted in 1944 and has been in use since 1944/45. The purpose of this system is to give a clear account of total gross investment undertaken by the various capital funds as well as of the amount of new capital required for this purpose, i.e., borrowings.

Special investment budgets are set up for the State capital funds showing, on the expenditure side, total investment outlays (real and financial) including replacement costs. On the receipts side these budgets show:

(*a*) Depreciation allowances included in the operating accounts of the capital funds;

(*b*) Depreciation of new investments as provided in the current budget of the central Government;

(*c*) Appropriations for covering capital losses as included in the current budget;[5]

(*d*) Liquidation of investments.

This last item consists of liquid assets collected for various reasons from the State enterprises and other activities and utilized to finance capital expenditure. Thus, it included in 1945/46 a large amount realized from the sale of assets of the "Reserve Supplies Board"; in 1947/48 it included the proceeds from the sale of the securities portfolio of the State railways, which previously had been acquired through the purchase of private railways; finally, in 1948/49, it included the funds freed by the return of the working capital previously at the disposal of the Fuel Board and by repayment of foreign credits granted.

The balance between total investment and the sum total of disposable funds listed above under (*a*)-(*d*), is designated as the "investment authorization". The authorizations for the various capital funds are consolidated into the so-called "investment plan" which shows the net amount of borrowings required for carrying out the plan.

The classification of capital transactions does not distinguish between financial investment and real investment which has a counterpart in currently-produced assets. For example, under the heading "State railways", the purchase of private railways is included. However, for purposes of economic analyses, a synoptical table is included in the annual survey of the *Konjunkturinstitutet*. This table not only shows capital expenditure and receipts on a gross basis but classifies total investment in the following way:

(*a*) Real investment;

(*b*) Domestic lending:

(i) Housing;

[5] This item is usually not shown as a receipt but is deducted from total expenditures.

(ii) Subscription of shares;

(iii) Other;

(*c*) Foreign lending;

(*d*) Purchase of private property:

(i) Private railway and bus lines;

(ii) Other purchases.

3. *Basis of reporting receipts and expenditures; cash and accrual*

The closed accounts record cash payments and cash receipts effected during the financial year ending on 30 June. Since payments are made as soon as the amount of a given liability is determined, there are scarcely any outstanding liabilities in arrears. This reflects the results of the budget reform of 1902, at which time the system of cash accounting was introduced in order to establish effective control of the administrative services of the Government. A checking account (the so-called "Treasury Checking Account") was established with the Bank of Sweden, to which all main administrative units of the Government have access. The checking account represents a common cash fund, and both expenditure and revenue are channelled through this account. A prerequisite for the efficient functioning of this system is that the basic bookkeeping of the financial transactions of the Government must be on a cash basis.

For revenue collections, such as taxes and fines, accounts are kept on an accrual basis in addition to the records on a cash basis. At the end of each budget year outstanding claims are listed as assets.

The adoption of cash accounting for budgetary transactions introduces some complication into the relationship between the central government budget and the accounts of the State capital funds (or State public undertakings).

It may be noted that the profits of the State capital funds as shown in the current budget do not correspond exactly to the profits shown in the accounts of the funds themselves. The profits shown in the current budget of the central Government are equal to the sum total of the following payments made by the undertakings:

(*a*) Several lump sum payments made during the course of the financial year, to be equal to the estimated profits of the respective funds;

(*b*) Adjustments with regard to the previous financial year for the difference between estimated and actual profits.

These adjustments are necessary since the accounts of the undertakings are not closed until some time after the expiration of the financial year, while the budget accounts are kept on a cash basis. Thus, accrual accounting seems to be used for the commercial transactions of the Government while the cash system is used for the administrative sector. This procedure seems

to be a satisfactory solution in bridging the apparent inconsistency in applying different accounting methods to different spheres of government activity.

4. *The National Debt Office*

The financial administration of the Swedish State is divided into two parts: (*a*) the Treasury, which is administered by the Government, and (*b*) the administration of the public debt, which is managed by the National Debt Office, directly responsible to Parliament. The general administration of funds is handled by the Treasury through its checking account with the Bank of Sweden, as described in section 3. The State's borrowing transactions are, however, under the control of the National Debt Office, established in 1789.

The Parliament decides upon the purpose and scope of State borrowing primarily by enacting the investment authorizations of the capital budget, while the National Debt Office is authorized to decide independently upon the conditions under which the needed funds are to be borrowed. There exists, however, close co-operation between the Government, the National Debt Office and the Central Bank.

With regard to the State budget, the National Debt Office is charged with arranging the disbursements stipulated by the "investment authorizations" of the capital budget investment plan, in accordance with the requests of the administrative authorities of the capital funds. It is also the duty of the National Debt Office to receive funds set free by liquidation of invested capital and by the appropriations voted in the working budget for writing off losses on capital funds. The difference between these receipts and the total amount of investment expenditure determines the amount of net borrowing to be undertaken by the National Debt Office. The amortization of the public debt in the usual sense as a fixed charge in government expenditure therefore does not arise. The accounts are set up in such a way that amortization can appear only in the form of negative borrowings, i.e., where total requirements for investments are less than the funds available for this purpose.

The National Debt Office has its own checking account with the Bank of Sweden, which is separate from the Treasury Checking Account. The combined balances of these accounts represent the cash holdings of the Government.

The National Debt Office has its own balance sheet in which the investments in revenue-producing enterprises appear as assets and the public debt, less the claims of the National Debt Office against the Treasury, as liabilities. This is in accordance with the established obligation of the National Debt Office to supply the Treasury with such funds as are required in order to cover the deficit on current account. The Treasury, however, is required to repay these advances to the National Debt Office as soon as its financial situation permits.

5. *Public debt statement*

The National Debt Office publishes a year book as well as monthly statements which set forth the total amount of outstanding public debt and its composition. The major subdivisions are "funded" and "floating" debt, the funded debt being further subdivided into (*a*) State bonds, (*b*) loans from State institutions and funds, and (*c*) other obligations. The floating debt consists mainly of (*a*) Treasury bills and (*b*) loans from State institutions and funds. The statements show no distinction between domestic and foreign debt, but the Swedish Bank Inspectorate publishes each year estimates of the amount of Swedish Government bonds held abroad and at home. These estimates indicate that practically all the public debt is in the hands of Swedish residents.

No comprehensive statement on the ownership of the Swedish public debt is available. The National Debt Office, however, publishes a table which indicates the ownership distribution of those funded obligations which are inscribed in the Swedish National Debt Book. Excluding the so-called premium loans, which are not entered in the National Debt Book, about four-fifths of the funded obligations have, in recent years, been inscribed in this ledger. The distributive shares as given in the above-mentioned table, indicate that only a minor proportion of the bonds is held by private persons: major holdings are in the hands of (*a*) State institutions, (*b*) insurance companies, (*c*) pension institutions, (*d*) savings banks, (*e*) private banks, (*f*) local governmental bodies and (*g*) foundations. The obligations to the Bank of Sweden do not appear as entries on this ledger nor do most of the bondholdings of private persons.

6. *Reconciliation of cash transactions with the changes in the public debt*

The Swedish budget accounts contain a statement each year which summarizes, on a cash basis, first the relationship between budgetary expenditure and receipts, certain extra-budgetary accounts and the changes in the cash balance (Treasury funds and National Debt Office checking accounts with the *Riksbank* and commercial banks) and, second, the year-to-year changes in the public debt outstanding. The amounts shown in this table under the heading "proceeds of loans" correspond exactly to the year-to-year increase in the public debt.

However, there appears to be a lack of complete consolidation of the accounts since the working credits or the cash position of the public undertakings and funds do not appear to be included in the cash balances of the Treasury and National Debt Office. This seems to explain the internal consistency between the net results of the budgetary transactions and the changes in the public debt in spite of the fact that a substantial part of the public debt consists of intra-governmental obligations (see section 5).

The extra-budgetary transactions, like the budgetary transactions, are effected through the checking accounts of the Treasury and of the National Debt Office, and are of relatively minor importance. Due to the great variety

of extra-budgetary transactions, it is rather difficult to describe them in a comprehensive statement. For example, they include payments which resulted from the Swedish guarantee of the Austrian conversion loan 1934-1959, when service on this loan was defaulted in 1938.

7. *Budgetary classifications for purposes of economic analysis*

In the *Economic Survey for 1949* the Swedish *Konjunkturinstitutet* attempts to reclassify budgetary expenditure and receipts for purposes of measuring (*a*) their net private income effect, and (*b*) their effect on the money and capital market.

The measurement of the income-generating effect is attempted in a table which shows budgetary receipts after deduction of taxes which are not considered as subtractions from current income (death, gift and inheritance taxes). "Real investment", as derived from the capital budget, is added to current expenditure net of depreciation allowances. The balance between receipts and expenditure thus defined serves as an indicator of the net effect of the budgetary results on private income.

The changes in the liquidity of the money and capital market effected by the financial transactions of the Government may be measured by the cash results of the budget, which are defined as equal to the changes in private net claims against the State. The changes in these claims in turn have an effect on the trend of interest rates.

A special table in the *Economic Survey* explains the derivation of the cash deficit and the methods employed in financing it. The calculation of the cash deficit is based in part on the budgetary accounts themselves and also on the accounts of certain cash operations between the Treasury and the National Debt Office and cash operations by the Debt Office alone. The receipts side shows the cash equivalent of the surplus on current account, plus the appropriation in the working budget for covering capital losses. To this is further added the balance of certain minor receipts and expenditures of the National Debt Office. The sum total of the above items indicates the total funds available for capital expenditure.

The heading "capital expenditure" shows the total amount of investment expenditure as accounted for in the capital budget, less capital expenditure already accounted for in the working budgets of the central Government and of the capital funds. In addition, this entry includes working credits of the National Debt Office to various government agencies. The difference between capital expenditure thus defined and the funds available from the working budget, is considered the cash deficit.

The subsequent sections of the table indicate the methods of financing employed to cover the cash deficits, such as (*a*) borrowings and (*b*) utilization of repaid capital (see section 2, Capital budget) and (*c*) utilization of cash balances. It should be noted that in the above-mentioned table, receipts from liquidation of investments are not part of total cash receipts but are considered as one of the items covering the cash deficit. Therefore,

proceeds from the sale of assets are excluded from receipts, but expenditure includes the purchases of existing assets and securities.

It should be mentioned that the *Konjunkturinstitutet* describes as "very limited" the possibility of measuring accurately the income effect, as well as the money supply effect, of the financial transactions of the Government. The principal limitations in the present financial accounts, according to the *Konjunkturinstitutet*, appear to be the lack of adequate information on inventories in the hands of the State undertakings and funds together with information on changes in those inventories. Similarly, in calculating the cash deficits, the *Konjunkturinstitutet* is not able to take into account the "working credits or the cash position of the public undertakings and funds".

Sources:

The Draft Budget (*Statsverksproposition*);

The Voted Budget (*Riksstat*);

The Year Book of the Accountant-General (*Riksräkenskapsverkets Årsbok*);

The Year Book of the National Debt Office (*Riksgäldskontoret Årsbok*);

The Swedish National Debt (a monthly statement);

The Economic Survey of the *Konjunkturinstitutet* (*Meddelanden från Konjunkturinstitutet, Serie A: 17, Konjunkturläget*).

C. The Structure of the United States Budget

The United States Government has a single-budget system which embraces all major types of financial transactions except transactions in the trust funds. There is no distinction in the basic reporting between current and capital transactions. All budget data and major requests for appropriations for the forthcoming year are combined in a single document, although supplemental appropriation requests, amendments to the budget and details of previous requests will frequently be submitted to the US Congress after the regular budget. The US budget is in a formal sense a pure expenditure forecast. While the impact on the revenue requirements is not completely ignored, the budget does not give detailed proposals for raising the required revenues.

US central government programmes are conducted by departments, by agencies and by corporations. All financial activities, regardless of the form of organization, are reported in the summary budget accounts on a cash basis. However, other types of reporting are used in the major supporting schedules. Corporation activities, for example, are listed on an accrual basis, and departments and agencies on an obligation basis (see below).

Departments and agencies are financed by appropriations from general and special funds; funds may be appropriated directly to corporations; social insurance programmes and certain miscellaneous activities are financed from trust funds. The budget totals do not reflect trust fund activities, although information on these transactions is reported in the budget document and combined with other activities in certain consolidated cash statements.

A number of banking-type operations of the US Government are conducted in the corporate form and are within the scope of budgetary controls. The Federal Reserve Banks (the central banking system), the stock of which is owned by their private member banks, are organized as public service corporations under federal law. The financial activities of the Federal Reserve System are extra-budgetary.

The following brief account of the budget structure of the US central Government will be treated in four parts:

I. Public undertakings;

II. Trust funds;

III. Classification procedures;

IV. Other budgetary characteristics.

I. *Public undertakings*

Character of public undertakings

There are three general types of public undertakings in the US federal Government:

(*a*) Commercial-type activities conducted by established departments and agencies. The postal services (Post Office Department) is the largest of these. Others include such activities as public power projects operated by the Department of the Interior, and the management of forest lands under the jurisdiction of the Forest Service of the Department of Agriculture. For an increasing number of these commercial-type operations, working capital funds have been established within the departments and agencies. The working capital funds are controlled through a business-type budget (see below).

(*b*) Wholly-owned government corporations. The US Congress has chartered about seventy-five corporations now in operation. The capital stock of such corporations is owned by the US Government. Fifty-one of these corporations are concerned with various types of farm credit; an additional thirteen operate in the field of housing. Others include the Tennessee Valley Authority, the Reconstruction Finance Corporation, and the Export-Import Bank.

(*c*) Mixed-ownership corporations. US statutes have created a limited number of undertakings to which the conventional term "mixed ownership" corporations is applied. In most instances the Congress appropriated funds from which the Treasury purchased a part or all of the initial capital stock of these undertakings. The balance of ownership rights is held by private citizens who have purchased capital stock; management and control generally rest in the hands of the private stockholders. The mixed-ownership corporations include the Central Bank for Cooperatives, regional banks for co-operatives and federal home loan banks.

Budgets of public undertakings

Business-type operations conducted by established departments and agencies are included in the budgets of these departments. Unless working capital funds have been established for these activities, appropriations and expenditures for the business-type operations are itemized on a gross basis and carried into the departmental budget totals. Receipts from such activities, however, do not appear as an offset to departmental expenditures, but are classified as "miscellaneous receipts" in the over-all revenue accounts. The Post Office Department is an exception to this treatment. Its accounts appear in the central government budget on a net basis. That is, only the net surplus or deficit is carried forward to affect the budget totals.

Wholly-owned government corporations are brought into the summary budget accounts on a net cash basis. Only the combined results, on both current and capital account, enter into the budget totals. In the summary budget tables, both in the functional presentation and in the organization unit presentation, there is no single entry which reflects the combined surplus or deficit of all the wholly-owned corporations. Instead, the budgetary effect of each corporation's operations is reflected in the departmental programmes of which it is an operating component, or, if unattached to any department, in the summary for "independent offices". For example, the surpluses or deficits of the various agricultural corporations are reflected in the summary accounts for the Department of Agriculture, of which they are an administrative component. However, the net result of Export-Import Bank operations, reflecting loans and repayments, is listed separately in the summary accounts under "independent offices".

The surplus or deficit which is carried from the corporation accounts to the summary budget accounts reflects the combined results of operating and capital transactions. This must necessarily be the case since the central accounts show no differentiation between capital and operating budgets for either the departments or the public undertakings. Corporation surpluses and deficits are both carried to the expenditure side of the budget summary. That is, a corporation surplus will reduce the total of budget expenditures.

Repayments of capital from the government corporations to the Treasury are excluded from both budget receipts and from the expenditures of the corporations. The only exception to this procedure consists of capital repayments from the few corporations which maintain checking accounts outside the Treasury. In these instances the repayment will appear as a Treasury "miscellaneous receipt". The capital transactions which are excluded from budget receipts are itemized in a supplementary statement in the budget document.

Mixed-ownership government corporations are not generally subject to budgetary controls, nor are their operating surpluses and deficits reflected in the summary budget totals. The capital transactions of these corporations, however, will affect budget totals. Congressional appropriations to the capi-

tal funds of these undertakings will appear in the summary budget accounts, as well as their capital repayments.

The business-type budget for wholly-owned corporations

Since 1945 wholly-owned government corporations have been required to submit a business-type budget to the US Bureau of the Budget, and have generally been brought within the pattern of budgetary control. These budgets differ from corporation to corporation in accordance with differences in financial operations and programmes. In general, the business-type budgets include a statement which is divided into two sections: funds applied, and funds provided. The "funds applied" section lists outlays for the acquisition of assets, for operating costs, for the repayment of capital and for the increase of working capital. The "funds provided" statement lists receipts from the sale of assets, income from current operations, and revenue from borrowing or congressional appropriations and from a decrease in working capital. The total of funds applied is, of course, equal to the total of funds provided.

In addition to the statement of the sources and application of funds, the business-type budgets include statements showing income and expense from current operations and a statement of financial condition showing assets, liabilities and capital. Within these statements are included an account of the net effect of the corporation's activities on the budget, and a statement showing the investment of the US Government in the activities of the corporation. The statements are arranged so that it is possible to determine, for any corporation, the division of its sources of funds as between appropriations and income from current and past operations.

The pattern of budgetary control for wholly-owned corporations differs substantially from the control over established departments and agencies. The appropriations committees of the Congress review the business-type budgets of the wholly-owned corporations, and must, of course, take positive action on all appropriations of Treasury funds. In addition, the Congress will customarily establish a limit on the administrative expenses of each corporation. However, approval of specific amounts for specific programmes is usually not required. Each corporation is generally free to conduct its affairs within the limits of its original statutory authorization with the funds available from its operating programmes. For example, corporations can conclude contracts without reference to fiscal year limitations.

Treasury control over government corporation funds

During the 1930's certain wholly-owned government corporations were authorized to borrow directly from the public, and their securities were guaranteed by the Treasury. At the present time, however, the US Treasury is the sole borrowing authority for departments and agencies and for the wholly-owned corporations; only small amounts of guaranteed securities remain outstanding. The mixed-ownership corporations may sell securities to the public without the Treasury guarantee.

In practice this means that only the capital transactions of certain types of agricultural credit operations supervised by the Farm Credit Administration of the Department of Agriculture are outside Treasury control. Furtheremore, wholly-owned government corporations may not engage in the purchase and sale of US securities in amounts of more than $100,000 without the approval of the Secretary of the Treasury.

All checking accounts of wholly-owned government corporations in amounts of more than $50,000 must be maintained with the Treasurer of the United States. Mixed-ownership corporations are exempt from this requirement, and frequently maintain their checking accounts in commercial banks.

II. *Trust funds*

The US budget document reports the financial activities of the trust funds but, with a few exceptions, these activities are not reflected in the budget totals. The trust funds are legal entities separated from the activities of departments, agencies and corporations. They have been generally established for the purpose of preserving an accounting segregation for funds, which the Government maintains for a specific fiduciary purpose. These funds are not available for congressional appropriation for general governmental purposes, but are available for meeting over-all financial requirements, i.e., trust fund accumulations are used to purchase Treasury securities. Interest received from these securities is a trust fund receipt and a budget expenditure.

The most important of the trust funds are those relating to social security programmes, although a large number of trust accounts are maintained and administered by the departments and agencies. Since the trust funds are not treated uniformly in US budget procedure it will be necessary to consider the major accounts separately.

The Old Age and Survivors' Insurance Trust Fund

This fund embraces the financial activities of the programme for old-age benefits. The fund has two major receipts—employment taxes levied specifically for this programme and interest on US obligations held by the fund. Employment taxes are itemized on the receipts side of the budget summary, and then deducted as an appropriation to the trust fund in arriving at net budget receipts. Benefit payments are made directly from the trust fund and do not appear as budget expenditures. The administrative expenditures of the trust fund are paid from the general fund and are included in budget expenditures.

Unemployment Trust Fund

A federal-state system of unemployment compensation is financed by payroll taxes imposed by the US Government, with part of the proceeds of the tax payable to the US Treasury. This portion is treated as a budget receipt, and a roughly equivalent amount is appropriated to the states for

purposes of administering unemployment compensation. The largest portion of the payroll taxes is paid to the Unemployment Trust Fund, and credited to separate state accounts within that fund. This portion is extra-budgetary, that is, contributions to the fund from payroll taxes and unemployment compensation payments do not affect the budget totals.

Railroad Retirement Fund

US statutes provide for a separate system of old-age benefits for railroad employees. The financial activities of this account are partially reflected in the budget. The receipts, in the form of payroll and wage taxes, are classified as employment taxes in budget receipts. An equivalent amount is appropriated to the Railroad Retirement Account. Benefit payments are made from the fund and are not shown in budget totals.

Other trust funds

Other important trust funds operated under the authority of the US Government include federal employees' retirement funds and veterans' life insurance funds. In addition, there are several hundred small trust accounts administered by the departments and agencies. The receipts of the smaller trust funds are generally derived from non-tax sources and are not a transfer from general and special accounts.

Although no uniform pattern of relationship between the budget and the trust accounts has been established in the United States, it is nevertheless generally true that the budget totals do not include trust account activities. The budget summaries do not consolidate the financial activities of departments, agencies and corporations with the financial activities of the trust funds, although the supporting tables which accompany the budget include a consolidated statement of all trust fund receipts and disbursements.

III. *Classification procedures*

The summary statements

The summary expenditure and appropriation statements of the US budget are classified both on a functional basis and on the basis of organizational units. The functional basis classifies central government programmes in accordance with the purpose to be served, the groups to be benefited, and the nature of the recipient of the expenditure. Thirteen major functions are delineated, such as national defence, veterans' services and benefits, international affairs and finance, general government, etc. These functions cut across departmental and agency lines, so that the programmes of a given department may serve one or more of the major functions.

Summary budget tables are also presented on the basis of organizational units. Functional code numbers are attached to each of the sub-accounts of departments and agencies to provide a cross-reference to the functional classification.

The summary statements show both appropriations and expenditures for three years—the year concluded (actual), the current year (estimated) and the forthcoming budget year (estimated).

The organizational unit summaries

The detail on organizational units in the US budget document is designed primarily for the use of the appropriations committees of the Congress. For the departments and agencies this is presented on the basis of obligations —that is, sums which are expected to be committed for the employment of personnel, the purchase of supplies and equipment or for contracts awarded. The obligation basis thus differs from both appropriations and expenditures. Appropriations authorize the obligations, while expenditures are outlays to meet the obligations as payments are due. For each organizational unit the obligation schedules are prepared on the basis of an object classification, which delineates such categories as personal services, travel, transportation, printing, and so forth.

Within the past few years, and increasingly with the 1951 budget, obligation schedules are also prepared on an activity basis. This classification shows the funds which have been or will be committed for the various programmes administered by the organizational unit. From these data it is anticipated that information on unit costs and work loads can be computed and thus provide standards for the measurement of agency performance. The activity schedules and the initial presentation of data on work loads and unit costs are the most important features of what is known in the United States as performance budgeting. Performance budgets are programme budgets at the agency level; they concentrate attention on the unit's activities rather than on the detailed information on personal services and other objects of expenditure. Performance budgets were recently authorized by statute and may be expected to become the major basis for presentation of information at the agency and department level.

Classification of receipts

US budget receipts are reported in five major categories: direct taxes on individuals, direct taxes on corporations, excise taxes, employment taxes and miscellaneous receipts. The miscellaneous category is large and embraces such diverse income as fines, penalties, interest, receipts from sale of government property, dividends on stock of government corporations and receipts from sales of products by departments and agencies.

Certain deductions are made from gross receipts in order to arrive at the concept "total budget receipts". These are the appropriation of employment tax receipts to the Old Age and Survivors' Insurance Trust Fund and the refunds of tax receipts. The resulting "total budget receipts" is compared with budget expenditures for purposes of determining a surplus or deficit.

Social accounting classifications

The summary budget statements do not identify the transactions which are significant for purposes of social accounting or national income analysis.

For example, the accounts do not show the total of "transfer payments", "government purchases of goods and services", or distinguish between "at home" and "abroad" outlays. However, supplementary budget schedules provide data which can be utilized to arrive at the classifications necessary for economic analysis of receipts and expenditures. One schedule contained in the US budget document shows "receipts to and payments from the public". This schedule eliminates intra-governmental and non-cash transactions and thus provides a measurement of the combined effect of central government activities on the income and capital accounts of the private sector.

A second schedule, entitled "Investment, Operating, and other Budget Expenditures" provides information on assets acquired, or other expenditures which are intended to provide benefits over a period longer than the fiscal year. This schedule also sets forth detail on loans (classified by type and agency), on government purchases of physical assets, on changes in inventory and on subsidy programmes.

It should be added that US agencies other than the Bureau of the Budget report governmental activities in classifications significant for social accounting. The US Department of Commerce and the Council of Economic Advisers report and classify government activities for purposes of national income analysis. The Treasury Department reports federal government cash transactions, which include budget accounts, trust accounts, and changes in working balances.

IV. *Other budgetary characteristics*

Measurement of the deficit

The classification procedure used in the US budget excludes the operations of the trust funds from the budget totals. A deficit is defined in terms of the budget totals, so that an excess of budget expenditures (excluding trust fund expenditures) over budget receipts yields a deficit. If Treasury cash balances remain constant, public debt outstanding increases with an increase in the deficit, even if this deficit may be offset by trust fund accumulations. It is therefore possible for US government operations as a whole, including the trust funds, to show a surplus at the same time that the budget registers a deficit and the public debt oustanding increases. Similarly, the deficit or surplus does not equate with cash income and outflow for government operations as a whole including trust funds.

US debt operations are presented in a budget statement, "Effect of Financial Operations on the Public Debt". This summary shows the net borrowing requirements of the Treasury, and the source of these requirements—budget deficit or surplus, trust account operations, changes in cash balances. Information is also shown on the distribution of public debt holdings by type of holder (trust funds, general public, etc.). Further, data on US debt operations, such as the volume of debt redemption, and the total sales of securities are reported by the Treasury Department.

Special analyses

The US budget document contains a number of supplementary tabular presentations which provide additional information on particular governmental programmes. The Treasury Department submits for the budget document an explanation of estimates of anticipated receipts. In addition, the document contains a detailed analysis of federal public works programmes —commitments, progress and plans—and a classification of federal aid programmes to state and local governments. The budget appendix contains further detail on specialized types of receipts, expenditures and appropriations and historical tables.

Basis of reporting

The US fiscal year runs from 1 July to 30 June, so that fiscal 1951 ends on 30 June 1951.

Budget expenditures from general and special accounts and corporation checking accounts are reported in the budget summaries on a cash basis (checks paid), with the exception of interest on the public debt, which is reported on an accrual basis.

Major sources of data on US government finances:

The Budget of the United States Government;
Annual Report of the Secretary of the Treasury;
Treasury Bulletin (monthly);
Annual Report of the Collector of Internal Revenue;
Treasury Department, *Combined Statement of Receipts, Expenditures and Balances of the United States* (annual);
Economic Report of the President (semi-annual);
Department of Commerce, *Survey of Current Business* (monthly).

D. The Budget System of the Union of Soviet Socialist Republics

Essential characteristics of the State budget[1]

The budget of the Union of Soviet Socialist Republics is an instrument of economic planning in an economy based on public ownership of the largest part of the means of production. The essential differences between the budget of the USSR and the budgets in countries with economies based on private ownership appear to be as follows:

(1) The budget in the USSR includes, in addition to the usual types of revenues and expenditures, the major portion of the profit from the industrial enterprises of the country and, on the expenditure side, the major portion of capital formation carried out within the whole economy.

[1] State budget is the literal translation of *Gosudarstveny Budget*, which is the budget of the USSR.

(2) The USSR budget is used as an effective instrument for distribution of the national product between real investment and current consumption in accordance with the goals established by the economic plan.

(3) The budget represents the most essential part of the over-all financial plan necessary for the fulfilment of the economic plan. At the same time it is an instrument of control over the realization of the economic plan.

In the following discussion the main features of the budget of the USSR will be considered under these headings:

1. Scope of the State budget;
2. Structure of the State budget;
3. The public enterprises and the State budget;
4. Budget of the USSR, the budgets of the Union republics and budgets of local authorities and their inter-relationships;
5. The State budget as an instrument of control;
6. Preparation of the State budget;
7. Execution of the State budget;
8. Closing of budget accounts.

The following description of the budget system is based principally on publications which describe the major features of the system. It has, however, not been possible to supplement the analysis by an examination of the actual execution of the budget since detailed budget documents and closed accounts have not been available since pre-war years.

1. *Scope of the State budget*

The scope of the State budget can be considered in three different respects: (*a*) the inclusion in the State budget of the budgets of all political and administrative entities at different levels of government; (*b*) the relation between the State budget and the accounts of the public enterprises and other organizations outside the State budget; and (*c*) certain extra-budgetary receipts and expenditure.

(*a*) The State budget is a joint or consolidated budget consisting of the budget of the Union, the budgets of the sixteen Union republics which compose the Union, and the budgets of all local authorities. The budgets of local authorities are those at lower levels of government within each Union republic, such as autonomous republics, provinces, regions, districts, municipalities and villages or communes. The budgets of the local authorities have been integrated into the State budget since 1938. The centralized direction of the planned economy finds its expression in the unification and consolidation of the budgets of all governments at various levels in a single State budget.

The Union budget is by far the largest as to magnitude of receipts and expenditure in comparison with total receipts and expenditure of the budgets of the Union republics and those of all local authorities. In recent years

expenditure of the Union budget represented about four-fifths, that of the Union republics taken together about 7 per cent, and of local authorities about 15 per cent of the total expenditure of the State budget. This means that the greatest part of government funds is within the competence of the Union budget.

(*b*) The public enterprises of the various branches of economic activity, such as banking, industry, agriculture, trade, transport, and communications keep financial accounts of their own outside the State budget. However, certain deductions from their net profits are made; these appear on the revenue side either of the Union budget, the budgets of the republics, or of the budgets of the local authorities, depending on the importance given to these enterprises. Most of the public enterprises organized in the form of trusts or combines are of Union importance, that is to say, they are placed under the direct supervision of the financial organs of the Union and, accordingly, their deductions from profits appear on the revenue side of the Union budget. Public enterprises of "republic importance" are placed under the control of the financial organs of each Union republic. Only a limited number of enterprises have been given that status by the Presidium of the Supreme Soviet of the USSR. Their deductions from profits appear on the revenue side of the budgets of the republics, while the revenues of local authorities include deductions from profits of local industrial and trading enterprises such as municipal banks, water works, tramways, the sewage system, etc.

The public enterprises are operated with a certain degree of independence and flexibility and use operating receipts for their expenses incurred within the framework of their economic responsibilities. They receive contributions from the respective budgets (Union, republican, or local) for their capital investment.

(*c*) Consequently, all receipts of the State budget (with minor exceptions) are available for covering expenditure. Generally there are no earmarked receipts for special purposes. However, there are some extra-budgetary receipts earmarked for special purposes which are part of special funds or special accounts outside the State budget. Such special accounts are created and sanctioned by the Council of Ministers of the Union for institutions and organizations of Union importance and by the Council of Ministers of each Union republic for institutions and organizations of the Union republics and local authorities. Special receipts are derived from fees, tuitions, or other contributions for kindergartens, technical schools, special schools for the blind, deaf and dumb, boarding schools, museums, etc. To this category belong administrative receipts, fees, proceeds from sale of material and from sale of publications, receipts from rentals on buildings. These are applied to cover expenses of workshops, purchase of books for libraries, repair works, research work, etc. During the war there were two special accounts, a Defence Fund and a Red Army Fund, the receipts of which consisted of voluntary contributions from the population. A statement

of all special accounts is established each year and attached to the closed accounts of the State budget.

2. *Structure of the State budget*

The expenditure and receipts of the State budget are shown on a gross basis, i.e., expenditure is entered without any deductions of related receipts, and receipts without any deductions of corresponding expenditure. The State budget also includes the gross expenditures and receipts of the Social Insurance Fund, which embraces such programmes as invalidity pensions, old-age pensions, sickness allowances, and medical care. Social Insurance Fund receipts are derived from contributions of all public enterprises, organizations and institutions. There are, however, no direct employees' contributions. Although similar to public enterprises in their operations and activities, the machine-tractor stations are treated differently in the State budget. Their expenses consist of cost for fuel and oil, repairs of tractors, combines and other agricultural machines, wages and administrative expenses; their receipts are derived from services rendered to collective farms. The gross operating receipts and expenses from these activities are included in the State budget. As already mentioned, the State budget shows on the receipts side the deductions from the profits of all public enterprises and on the expenditure side the budget contributions for capital outlay.

The State budget document containing all the detailed items of expenditure and receipts is not published and therefore not available. Only a summary statement of the State budget is published at the time of its presentation by the Minister of Finance of the USSR to the Supreme Soviet (Parliament).

Expenditure is divided into five main groups: (1) national economy (capital outlay), (2) social and cultural services, (3) national defence, (4) administration, and (5) service on State loans.

The first group consists of expenditure for capital investment in industry, agriculture, transport and communications, trade and procurement, public buildings, housing, etc. Through the State budget, funds are placed at the disposal of the public enterprises for capital investment and for increase of working capital.

The most important item of budget expenditure is for financing the national economy, accounting in recent years for about two-fifths of total expenditure in the State budget. About two-thirds of this expenditure is devoted to capital formation and to increases in working capitals. The financing of new capital investment and the increase in working capital through the State budget accounts for about four-fifths of total outlay for such purposes. The remainder of capital formation is financed from that portion of profits which is left at the disposal of the public undertakings as well as from their depreciation allowances.

Second in importance is expenditure for social and cultural services, which was about 30 per cent during 1946 to 1948. This item includes ex-

penditure on education, health and physical culture, social security, including payments of pensions to war invalids and their families, to families of those killed in the war, to families with many children (State-administered), and State social insurance for payments to those temporarily or permanently unfit for work (administered by the trade unions).

The remaining headings are national defence, expenditure for the various ministries and services, public debt service, etc. There are no details available with regard to the composition of the expenditure items listed above.

The revenue of the State budget as published in the summary statement is divided as follows: (1) turnover tax, (2) deductions from profits of public enterprises, (3) taxes from the population, (4) proceeds from State loans and (5) other revenue. The most important items are the turnover tax and the deductions from profits of public enterprises. These two items alone make up more than two-thirds of the total revenue of the State budget. The items included under "other revenue" are the gross receipts of the machine-tractor stations, receipts from government property, customs duties, receipts from income tax payable by collective farms (*kolkhoz*) and by co-operative organizations and enterprises. The revenue heads listed above are usually grouped in the official documents under the heading: revenue derived from the public sector of the national economy. Under the general heading of revenue derived directly from the population, the taxes imposed on individuals and proceeds of State loans subscribed by individuals are shown, including not only those subscribed by the population, but also those subscribed by savings banks and social insurance funds.

The turnover tax represents the difference between sales price determined by the Government and planned cost plus planned profits. It is the major instrument in establishing equilibrium prices on the basis of the available supply of consumer goods and disposable money incomes. In recent years its yield was between 55 to 60 per cent of total budget receipts including loans.

The deductions from profits of public enterprises represent that portion of profits which is not earmarked in the plan for investment and not paid to the Manager's Fund,[2] but in no case are these deductions less than 10 per cent of the profits of an enterprise. In recent years between 50 and 60 per cent of the profits of all public enterprises were transmitted to the State budget, representing about 7 per cent of total budget receipts. In view of the fact that prices of commodities are determined by the Government and that both the revenue from profits and from the turnover tax accrues to the Government, the distinction between the proceeds from the turnover tax and from enterprise profits loses much of its usual meaning. The distinction has, however, been maintained for administrative and management considerations. In the economy of the USSR, investment is determined by the plan. Therefore the function of profits as a regulator of investment has dis-

[2] See section 3 below.

appeared, and its only remaining function is to serve as an incentive to increased efficiency as well as an indicator of the efficiency of the enterprise. Enterprise profits in such a system should therefore not be affected by exogenous factors, such as the difference between cost and the sales prices, since the latter are determined by the Government without any direct relationship to production cost. The turnover tax is paid by the State-owned enterprises. The collective farms and the co-operatives pay an income tax which represents only a minor item of budget revenue. The government revenue derived from agriculture is actually much higher than would appear from the budget data. Revenue also accrues through compulsory deliveries at a fraction of the free market price for agricultural goods. The sales of these commodities at retail prices fixed by the Government include the turnover tax which appears as revenue paid by industries processing agricultural goods or by State wholesale trade organizations. The rate of the tax is largely determined by the difference in cost, including profit and the fixed price.

The principal taxes imposed on individuals are the income tax, land tax, tax on bachelors and the tax on families without children or with few children.

3. *The public enterprises and the State budget*

It has been pointed out that the public enterprises keep their own commercial accounts and that their relation to the State budget consists in the payment of the turnover tax, in deductions from profits and in receipts from the State budget funds for capital investment. The financial position of the public enterprises is determined by the economic plan for the volume of production, production cost, organization of the labour force and utilization of funds. The increase in efficiency of the enterprise is reflected in its profits, which are the difference between operating receipts (proceeds from sales of goods and services at prices fixed by the State) and the operating expenses, represented by the cost of production including provision for depreciation, social security payments and the turnover tax. The increase in profits can be brought about by an increase in output which will reduce the unit cost by lower depreciation charges per unit, by better utilization of equipment, rises in output per man, more economical use of raw material, etc. In order to stimulate the initiative of the management and the workers in fulfilling the plan, as well as increasing efficiency and therefore profits over the planned level, 4 per cent of the planned profits are transferred into the Manager's Fund if the planned level of profits has been reached. If, however, profits are above the planned figures, 50 per cent of the difference between planned and realized profits are transferred to the Manager's Fund. The Manager's Fund is utilized for housing and improvement of living conditions and for bonuses for employees and for special remuneration of the manager. The Manager's Fund is thus an important instrument for the fulfilment of the task set by the economic plan. As stated above, after the initial deduction of the statutory 10 per cent by the State

and of the 4 percent to the Manager's Fund the remainder is either totally or partially used for increasing fixed and working capital or is transferred to the budget as determined in the over-all economic plan. As investment plans are determined by factors wholly independent of the profits of the enterprise, a considerable part of new investment is usually covered by contributions from the budget.

4. *The budget of the USSR, the budgets of the Union republics and the budgets of local authorities and their inter-relationships*

The volume, i.e., the level of expenditure and receipts, of the various budgets is naturally determined by the functions performed by governments at the different levels. In accordance with article 14 of the Constitution, most of the important functions are centralized within the Union Government. The scope of the Union budget embraces the financing of the major industrial base of the national economy, such as all heavy and war industry, all large industrial enterprises and banks; in agriculture, the machine-tractor stations, State farms (*sovkhoz*), irrigation of Union importance and forestry; in transport and communications, railways, sea, river and air transport, highways, post, telegraphs and telephones; in trade, all internal trading enterprises and foreign trade (State monopoly). The Union budget includes expenditure of the State Social Insurance Fund, social security (war pensions, etc.), national defence, police, most of education and public health, debt service, etc. Correspondingly, the Union budget includes on the revenue side the turnover tax, all other important taxes, deductions from the profits of all public enterprises of Union importance, the receipts of the machine-tractor stations, the receipts of the State Social Insurance Fund, the proceeds of loans, etc.

The budgets of the Union republics embrace administration activities of republican importance in accordance with article 76 of the Constitution. This article states that the ministries of the Union republics are in charge of such administrative activities as are delegated to them by the corresponding ministries of the Union. They supervise and control only a limited number of public enterprises, of republican importance, as approved by the Presidium of the Supreme Soviet of the USSR. Their receipts are also limited and are not sufficient to cover their expenditure.

The budgets of the local authorities provide for financing the capital outlay of public enterprises for the immediate needs of the local population, such as food industries, light industries, electricity, gas, water supply, tramways, etc. Local expenditure includes housing, public works in the cities and villages, education, public health, etc. Local budget receipts are derived from the turnover tax payable by local enterprises and from certain other local taxes. The revenue of the local authorities is generally insufficient to cover expenditure. The Union budget is generally over-balanced, whereas the budgets of the Union republics and the budgets of local authorities are

under-balanced. In order to cover the deficits of the republican budgets and the local budgets, grants from the Union budget are used. The grants are transferred to the republican budget for further distribution between the Union republic and the local budgets, or are fixed separately for the Union republic and for the budgets of the local authorities. The grants are established each year as fixed percentages of the yield of Union taxes and other Union receipts. This is the so-called regulatory procedure which is intended to provide for all budgets below the Union budget the funds necessary for financing expenditure and consequently for fulfilling responsibilities determined by the economic plan. If the grant is not sufficient to balance the Union republic or local authority budget an additional lump sum is provided in the form of a subsidy. The grants and the subsidies from the Union budget to the budgets at lower levels are considered as regulatory receipts in distinction to the proper receipts of these budgets. The balancing of the budgets of the Union republics and the global balancing of the local budgets are sanctioned by the Supreme Soviet of the USSR, and the further allocation of the grants among the various local budgets is carried out by the financial organs of the Union, Union republics and local authorities. The balancing of all budgets implies, of course, the balancing of the over-all State budget.

5. *The State budget as an instrument of control*

The State budget in the course of its execution is an instrument of control in the fulfilment of the economic plan. The collection of all taxes and other receipts, as well as the expenditure of funds, involves control and directing influence toward the goals of the economic plan. Since the scheduled accruals of tax revenue from individual enterprises are directly dependent on the fulfilment of planned targets (output, cost, etc.), any deviation from the quotas established by the plan will be immediately reflected in corresponding changes in their tax payments. Thus the yield from the turnover tax as well as from realized profits represents a sensitive financial indicator of the extent to which the economic plan for particular enterprises, as well as for the economy as a whole, has been realized. This enables the Government to limit direct administrative intervention in the management of each particular enterprise.

The execution of investment plans is similarly controlled through the financial system. All financial transactions of government enterprises are made on current account and the banks through which the budgeted funds are distributed have a constant check on the daily use of funds granted for capital outlay.[3] Without undue interference in the current operations of the enterprise, financial authorities may supervise and intervene directly in case of necessity.

[3] See below.

6. *Preparation of the State budget*

The economic plan[4] and the State budget are drawn up under the close direction of the Communist Party and the Government. The Central Committee of the Communist Party and the Council of Ministers of the USSR determine the general lines of the economic plan on the basis of data of past years. The planning organs proceed to the elaboration of the economic plan. In accordance with its directives the Ministry of Finance of the Union instructs the other Union ministries in the preparation of the draft budget of the Union and the ministries of finance of the Union republics in the preparation of the republican and local budgets.

The ministries of finance of the Union republics submit to the Ministry of Finance of the Union the draft budgets of the Union republics and local authorities as approved by the councils of ministers of the Union republics. The Ministry of Finance of the Union then prepares the draft budget of the Union and incorporates all budgets in the joint State budget. The Council of Ministers of the USSR examines in detail the draft of the State budget and resolves all differences which might exist among the governments at lower levels. Then the State budget is approved by the Council of the Ministries of the Union and submitted by the Minister of Finance of the Union on behalf of the Council of Ministers to the Supreme Soviet of the Union (Union Soviet and Soviet of the Nationalities). After examination by the respective budget commissions (of the two houses) the State budget is adopted in the form of a law. This law fixes all grants to be transferred to the republican and local budgets out of the receipts and taxes of the Union budget in order to balance receipts and expenditure of all budgets. The State budget is voted for one financial year which coincides with the calendar year. At the end of the financial year the State budget lapses and becomes void and at the beginning of the next year the new budget comes into force.

After adoption of the State budget by the Supreme Soviet of the USSR, the ministries of finance of the Union republics make the necessary adjustments in the republican and local budgets. With the necessary corrections the budget of the Union Republic and of its local budgets is approved by the Council of Ministers of the Union Republic and presented for adoption to the Supreme Soviet of the Union Republic. The same procedure is followed by the local authorities in respect to their local budgets.

7. *Execution of the State budget*

In order to facilitate its execution, the annual State budget is supplemented by quarterly budgets. The latter are established in conformity with the quarterly indices and data in the economic plan, and based on the planned rate for implementing all production and operation plans of enterprises with allowances for seasonal needs, the requirements of new enter-

[4] The economic plan for a given year is itself based on the Five-Year Plan as approved by the Communist Party and Government of the USSR.

prises, the progress in capital formation, decrease in production cost, changes in turnover, changes in total wages and salaries, etc. Furthermore, quarterly budget expenditure and receipts are determined by priorities and seasonal needs in effecting expenditure, and by deadlines for payments of taxes and other receipts. The execution of one quarterly budget serves as a basis for the necessary corrections and adjustments in the following quarterly budget. Receipts and expenditures of the quarterly budgets are balanced in the same way as the annual State budget. When a balancing of the quarterly budgets cannot be easily achieved, certain expenditures of less urgent character are transferred to the next quarterly budget.

The execution of the State budgets is entrusted to the financial authorities of the respective governments, in collaboration with the State bank and the special banks for long-term investment.

Public enterprises are obliged to calculate their tax liabilities and pay their taxes, such as the turnover tax, income tax of co-operative societies, and deductions from profits within the prescribed period. Taxes payable by workers and employees of the enterprises are withheld at the source. Individuals pay their taxes after notification by the appropriate financial authorities of their tax liability as well as of the terms of payment.

Expenditure is effected by opening credits to the respective ministries, services and institutions on the basis of the voted budget appropriations. These credits are extended by the financial authorities of the various governments (Ministry of Finance of the Union, ministries of finance of the Union republics and financial services of local authorities). Such credits are opened in accordance with the quarterly budgets, and the disbursing officers of each ministry, service or institution draw the necessary funds and make the payments.

The State Bank is the cashier of the different levels of governments with a special department dealing with the cash operations on account of the State budget. All budget receipts collected are paid into the State Bank and all disbursements are paid out by the State Bank. Separate accounts are kept for the various budgets: Union budget, republican budgets and local budgets. Thus the execution of the State budget on a cash basis is centralized with the State Bank and administered by a large number of branches throughout the country. In this way the State Bank controls the execution of the State budget. Payments into the State Bank are made on the basis of documents in three copies: one is the voucher for the State Bank, the second is transmitted to the payer with a receipt by the Bank and the third is forwarded to the respective financial authority (Ministry of Finance). Disbursements are handled in a similar fashion on the basis of documents from the financial authorities. These are examined by the Bank to determine the authorization of payments from the credits from voted budget appropriations.

The disbursements for capital investment are effected by special banks for long-term investment: industrial banks, agricultural banks, commercial

banks, etc. For the purpose of control all funds destined for capital construction are concentrated in the special banks and all expenditures out of these funds are effected by the special banks. The budget contributions for capital outlay are credited periodically by the respective financial authorities to the respective special banks. The depreciation funds as well as the profits at the disposal of the enterprise for capital outlay are deposited by the enterprise to the special banks. The latter make payments for capital works in accordance with the economic plan and supervise the progress of construction as well as the prices fixed by the Government for material, transport and wages.

The special banks transmit to the financial authorities monthly statements on actual disbursements for capital construction from budgetary appropriations and from the funds of the enterprises. On the basis of these statements the financial organs control the funds of the enterprise transferred to the special banks and regulate the transfer of the budget appropriations to the same banks. At the end of the financial year the actual capital outlay, less that portion which has been financed by the internal funds of the public enterprises and institutions, is entered in the State budget accounts.

The State Bank receives from all its branches telegraphic data on the cash receipts and cash payments on account of the various budgets and transmits this information to the respective financial authorities. These reports take place at five-day intervals. The State Bank keeps detailed accounts of cash collections and cash payments for the operation of the Union budget, the republican budgets and the local budgets on a monthly, quarterly and annual basis. These accounts are transmitted to the ministries of finance (and financial authorities) for control and checking with their own budget accounts and those of the collecting agents and disbursing officers. At the end of each quarter the Ministry of Finance of the USSR prepares an over-all statement on the execution of the State budget, based on the actual quarterly receipts and expenditure of the Union budget, republican budgets and local budgets. The closed accounts of the State budget for the whole financial year are prepared in the same way.

8. *Closing of the budget accounts*

The budget accounts are closed at the end of the financial year, i.e., 31 December. Cash payments on the basis of the voted budget appropriations are made until the end of the financial year, after which all unused appropriations are cancelled. Receipts collected and payments made after 31 December on account of the State budget just ended are included in the accounts of the new State budget. Not later than 31 December the disbursing officers are liable to return to the State Bank all funds which have not been disbursed. The refund of these sums cancels the corresponding budget appropriations in the same manner as all other non-utilized appropriations.

While the rule is that the budget accounts are closed at the end of the financial year, there is one exception for the most northern territories of

the RSFSR. They are allowed an additional period of two months after the end of the financial year during which the budget accounts remain open. Collection of receipts and payments of expenditure can be made during this additional period on account of claims established and obligations entered into during the financial year just ended and included in the budget accounts of that year.

The closed accounts of the State budget contain explanatory notes which not only point out the differences between the budget estimates and the actual figures, but also reveal the economic, organizational and technical causes and conditions which have determined the various items in the State budget accounts. These notes also indicate the inter-relations between the budget accounts and the accounts of the public enterprises.

The report on the closed accounts of the State budget prepared by the Ministry of Finance of the USSR is submitted for examination to the Council of Ministers and is sanctioned by the Ministry of State Control (Audit Court). The closed accounts approved by the Council of Ministers of the USSR are submitted for adoption to the Supreme Soviet (Soviet of the Union and Soviet of Nationalities) together with the State budget estimates for the forthcoming financial year.

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